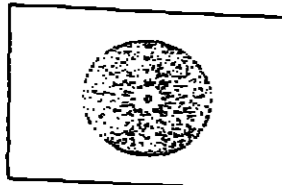


FINANCIAL TIMES



Japanese banks
Breaking away
from the pack
Page 13

Biomass bonanza
Energy from
olive groves
Page 10

East Timer
Where terror
still rules
Page 12

Danish banking
Fighting for
business
Survey, Section II

WEDNESDAY MARCH 29 1995

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Court clears way for building societies' free shares issue

The British High Court cleared the way for the largest single extension of share ownership in the UK by approving plans to give free shares to the 10m members of building societies Halifax and Leeds Permanent, which intend to merge and become a bank. Page 9; Lex, Page 14

Upturn in US consumer confidence: US consumer confidence rebounded in March, indicating that fears of a sharp deceleration in US economic growth may be unwarranted. Page 14

Renault profits tripled: French motor group Renault, which was floated on the stock market last year, reported annual net profits tripled to FF3.64bn (£730m) and forecast a further rise in 1996. Page 15

Jobs to go at Bell Canada: Bell Canada, the country's biggest phone company, is to cut 10,000 jobs, or almost a quarter of its workforce, and take write-offs totalling C\$1.7bn (US\$1.2bn) as it prepares for stiffer competition and expanded multimedia services. Page 15

US threatens complaint against Japan: US trade representative Mickey Kantor is expected to raise the stakes in the US-Japanese dispute over vehicle trade with a threat to file a complaint against Japan with the World Trade Organisation. Page 6

Koor Industries hits: Koor Industries, Israel's biggest industrial company, reported annual net profits of \$120m, down \$23m despite increased sales and exports. Page 19

Hoechst profits 80% ahead: German chemicals group Hoechst reported a fivefold increase in European profits, which more than offset a poor year in North America. Pre-tax profits rose 80 per cent worldwide to DM2.21bn (£1.57bn). Page 16

S&P turns negative on six NY firms: US credit ratings agency Standard & Poor's took a negative stance on six leading Wall Street firms, citing continued turbulence in capital and currency markets. Page 19

Caltex and Ampol merger cleared: A merger between Caltex Australia and Ampol, which will create a new market leader in Australia's petroleum refining and marketing sector, was approved by the Trade Practices Commission. Page 19

Ciba jobs at risk: Swiss pharmaceuticals and chemicals company Ciba will cut more jobs in Switzerland as a result of the rising Swiss franc, chief executive Alex Krauer said. Page 16

British deficit double Maastricht limit: The British government budget deficit last year was more than double the limit permitted under the Maastricht treaty for European economic and monetary union, according to government figures. Page 9

Shares sale boosts Taylor Woodrow: The sale of nearly all its shares in the Channel tunnel helped UK construction and property group Taylor Woodrow increase pre-tax profits 68 per cent to £50.8m (\$83.3m) for 1994. Page 20

The Limited may split up: US fashion retailer The Limited is considering a complex plan to split up the group and distribute cash to shareholders. Page 15

Ostriches beat the British taxman

Ostriches will escape from the British taxman at the end of the month because the UK authorities have decided to classify ostrich farming as food production. The flightless bird, which sells at between £18,000 and £20,000 (\$29,500-\$33,000) for a breeding pair of two females and a male, will have a zero VAT rating along with its fertilised eggs. Ostrich feathers, a favourite prop of amateur drama groups, will retain VAT at the standard rate of 17.5 per cent, along with ostrich leather. Page 14

Médécine corruption trial opens: Jacques Médécine, former mayor of Nice and one of the first subjects of France's recent clampdown on alleged public sector corruption, goes on trial in Grenoble today after four months in detention. Page 3

MatWest to sell custody businesses: National Westminster Bank of the UK put its domestic and global custody businesses up for sale, signalling the start of a shake-out in an increasingly competitive business. Page 15

STOCK MARKET INDICES	
New York Composite	4,148.74 (+16.80)
Dow Jones Ind. Av.	3,182.39 (+0.78)
NASDAQ Composite	1,823.39 (+1.09)
Europe and Far East	
FT-SE 100	2,817.19 (+1.09)
DAX	1,918.98 (+33.94)
Nikkei	15,081.7 (+25.48)

US LUNCHTIME RATES	
Federal Funds	5.1%
3-mth Treas. Bills	5.83%
Long Bond	10.02%
Yield	7.37%

OTHER RATES	
UK 3-mth Interbank	6.1% (Same)
UK 10 yr Govt	10.0% (10.0%)
France 10 yr Govt	9.5% (9.5%)
Germany 10 yr Govt	10.1% (10.1%)
Japan 10 yr Govt	10.2% (10.2%)

NORTH SEA OIL (Aurus)	
Best 15-day May	\$17.22 (17.24)
May	\$17.22 (17.24)

GOLD	
New York Comex	\$322.15 (+0.78)
London	\$322.15 (+0.78)
DOLLAR	
New York Composite	1.6105
DM	1.3916
FF	1.3916
Sfr	1.4485
Y	96.15
London	1.6007
DM	1.3997
FF	1.3999
Sfr	1.4485
Y	96.15

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Mitsubishi Bank and Bank of Tokyo aim to complete link-up next year Plan for world's biggest bank

By William Dawkins, Gerard Baker and Emilio Terazone in Tokyo

Mitsubishi Bank and Bank of Tokyo, two of Japan's strongest financial institutions, yesterday announced plans to merge to create the world's largest bank, with assets of ¥72.78bn (\$608bn). The two commercial leaders cited the growth in competition in Japanese and international capital markets as the main factor behind the merger, which is to be consummated by April next year.

Japanese finance ministry officials welcomed the plan and hoped it would speed up the restructuring of the country's fragmented and costly banking industry.

Mr Tsuneo Wakai, president of Mitsubishi Bank, the financial heart of the Mitsubishi corporate family, Japan's biggest and most tightly knit *keiretsu* (commercial grouping), said the merger was needed to "ride the waves of change in the global financial arena". It would be "good for clients, depositors, employees and shareholders", he said.

Mr Tasuku Takagaki, president of the Bank of Tokyo, added: "The new bank is needed since the economy is becoming borderless because of internationalisation, liberalisation, the evolution of technology, and the development of information services."

The merger will come as little surprise to competitors. The pair have discussed a link-up on and off since 1990, when Mr Takagaki approached Mitsubishi soon after becoming Bank of Tokyo president. The bank needed a partner

because its traditional specialisation, foreign exchange transactions, was being exposed to growing foreign competition, Mr Takagaki said.

The partners are broadly complementary, in that Mitsubishi has a strong retail base but is less well represented abroad, while the Bank of Tokyo has an extensive foreign network but is less strong in Japan.

Mitsubishi's ¥49,560bn of assets

Size isn't everything - Page 13

Lex - Page 14

Complementary suitors in search of a logical fit - Page 17

make it Japan's sixth-largest bank, and Bank of Tokyo's ¥22,840bn make it tenth. The new body will displace Sumitomo Bank, with assets of ¥53,00bn, as the world's leader.

It will also have the best asset quality of any Japanese commercial bank, according to Salomon Brothers, the US investment bank, which estimates the new bank's bad debts will be equivalent to 2.5 per cent of total loans, the lowest of its domestic competitors.

Essential details, such as financial terms and the management structure of the new bank, provisionally named Tokyo Mitsubishi Bank, have yet to be worked out. It requires clearance from the Japanese Fair Trade Commission, which yesterday said it saw no problem, and from US anti-trust authorities, since each partner owns a separate commercial bank in California.

Talks were shelved during the recession, when bad debts piled



Bank of Tokyo president (left) and Mitsubishi Bank president at yesterday's press conference

up at both institutions as the value of property collateral declined. Both banks' recent success in bringing bad loans under control allowed merger talks to start again.

Japanese business leaders and investors welcomed the announcement, a heartening change to the gloom overhanging

a troubled official rescue of two bankrupt credit unions and the mounting bad debt problems of housing loan corporations and small regional banks.

"I expect the merger to help stabilise the nation's financial system and revitalise economic activity," said Mr Shoichiro Toyota, chairman of the Kaidanren

economic federation. It would help restore trust in Japan's financial markets, said Mr Takeshi Nagano, president of the Nikkei employers' federation.

The planned merger was a factor in a 3.64 per cent rise in the Nikkei index yesterday, within which bank shares rose by 8 per cent.

Deutsche Telekom recruits Sony Europe boss

By Michael Lindemann in Bonn and Alan Cane in London

Deutsche Telekom, the German telecommunications group, yesterday ended a three-month search for a new chief executive by appointing Mr Ron Sommer, head of the European operations of Sony, the Japanese consumer electronics group.

Mr Sommer, 45, will replace Mr Helmut Rieke, who resigned unexpectedly last December alleging that there was too much political interference in the management of the company, which is being privatised by the Bonn government.

Mr Sommer will be presented to Deutsche Telekom's 20-member supervisory board today.

The supervisory board is made

up equally of employers' and employees' representatives. Two-thirds of the board must vote for him to confirm his appointment. Yesterday, employee representatives expressed anger over lack of consultation on the appointment and threatened to delay the vote.

Sony Europe refused to comment on Mr Sommer's new position. But one executive said: "He is going to be missed. He has lots of energy, a good mind and the ability to deal with day-to-day routine while holding on to the larger vision."

Mr Sommer is well regarded and well known in the German business community. He became president of Sony Corporation of America in 1980 and has been president and chief operating officer of Sony Europe since 1983.

Born in Israel and educated at Vienna University, he is a mathematician by training. He has extensive experience of the computer industry, having worked for Germany's Nixdorf Computer, now merged into Siemens Nixdorf, before joining Sony.

More than two years ago Mr Sommer was warning that telecommunications companies would prove the principal competitors to traditional consumer electronics companies.

His experience in the cut-and-thrust of consumer electronics markets could prove useful to Deutsche Telekom as it prepares for privatisation, the deregulation of German telecommunications markets and the advance of information technology.

The company is still looking

for international partners to help it become a global telecommunications player. Hopes that it could team up with France Telecom and with Sprint of the US strengthened yesterday after Mr Karel Van Miert, the European Union's competition commissioner, said that the Franco-German alliance was more likely to be approved following Germany's presentation earlier this week of far-reaching plans for market liberalisation after 1998.

The partnership with Sprint, however, still hangs in the balance and is being studied by the US regulatory authorities.

The company has 230,000 employees on its pay-roll - about half are civil servants with jobs for life - making it unproductive compared with international competitors, and must shed 60,000 jobs by 2000. "That's going to be his main battlefield," said one senior executive who knows Dr Sommer well. "He knows how to run a US company but one has to run Deutsche Telekom rather differently. I think he's flexible enough for that."

Continued on Page 14

Yeltsin abandons Russian tour after lack of interest

By Chrystie Freeland in Moscow

Russian president Boris Yeltsin yesterday abandoned a meet-the-people tour through Russia's heartland because of lack of interest - his own and that of the people.

When the president boarded a train in Moscow on Monday with a broad smile and a hearty wave he appeared to be embarking on one of the traditional forays to the provinces which Russian leaders have periodically made since the days of Catherine the Great.

All of the usual elaborate preparations to ensure that the presidential procession would be a success had been made: stations along the way had been scrubbed, buildings freshly painted, potholed roads hastily repaired.

But the new rules of post-communist Russia meant that Kremlin handlers were no longer able to provide the one thing Mr Yeltsin craved most, an enthusiastic popular reception.

In Ryazan, about 100 miles south-east of Moscow, the only city Mr Yeltsin stopped at before

abandoning his train for the more sheltered embrace of the presidential jet, just 300 people could be persuaded to brave the snow for a brief glimpse of their leader.

Those who did come out seemed decidedly unimpressed by the pomp and ceremony. "When the communists came here it was the same," one local worker told the Moscow Times. "Now his leadership comes again and they've painted the houses. They paint and paint."

For Mr Yeltsin, who was swept to power in 1991 on the strength of his popular image as a man of the people, the lukewarm reception was a painful reminder that his public approval ratings have fallen to 6 per cent in the most recent opinion poll.

The vivid reinforcement of that message appeared to be enough to persuade Mr Yeltsin to abandon his flesh-and-blood tour of Russia in favour of a quick flight to an elite communist-era Caucasian resort, where he spent yesterday playing lawn tennis with his close advisers.

Mr Yeltsin's last-minute change of plans was also a rare

public manifestation of the private vacillations of a leader who cannot seem to decide whether he wants to be the father of Russian democracy or a 20th-century tsar whose strong hand steers Russia back to greatness.

One of the most categorical statements in Mr Yeltsin's February state of the union address was his pledge to hold parliamentary elections in December 1995 and a presidential ballot in June 1996. But, there have been signs that the elections, like the train tour, might also be pushed off the rails.

The poor turnout for the aborted presidential tour is just one example of the mounting public dissatisfaction that could bring Mr Yeltsin a humiliating defeat at the polls. That prospect has inspired a growing number of business people and officials close to the president to call for the elections to be postponed.

Yesterday, Rossiyskaya Gazeta, the official newspaper of the Russian government, urged Mr Yeltsin to redefine himself as the "creator of a Great Russia", become a life-long president and call off elections.

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NEWS: EUROPE

Arrest warrants issued against former ministers and judge

Anti-mafia magistrates in big sweep

By Robert Graham in Rome

Italy's anti-mafia investigators yesterday claimed to have made a significant breakthrough in uncovering links between politics, business, government officials and organised crime in the southern region of Puglia.

This followed the issue of arrest warrants for 35 people allegedly involved in a complex system of mutual favours linked to corruption in health-care. The warrants covered two powerful ex-ministers, the bosses of two local mafia families, four members of the Guardia di Finanza financial police, a prominent former judge, the mayor of Bari and the editor of the *Gazzetta del Mezzogiorno*, one of the most influential dailies in southern Italy.

It was the largest single judicial sweep of a politico-criminal power base in an Italian region since the corruption scandals broke three years ago. Until now Puglia has been the one region in southern Italy to have largely escaped the reach of investigative magistrates.

The arrests come only a month before key regional and local elections; but a statement yesterday insisted the investigation had been started two years ago.

The statement claimed that Mr Francesco Cavallari, a leading local businessman, in con-

junction with top members of Puglia's organised crime, had set up "a criminal network of alliances, protection and complicity in corruption of every type, drawing in politicians who were prepared to put their own interests above those of the common good".

Mr Cavallari, who runs 10 private health clinics, was first arrested in May last year on corruption charges and for alleged links with organised crime. The activities of these clinics are at the centre of the inquiries that led to yesterday's arrest warrants.

The two former ministers were Mr Vito Lattanzio, a former Christian Democrat, and Socialist Rino Formica. Mr Lattanzio, whose power base expanded under the patronage of seven-times premier Giulio Andreotti, held three ministerial portfolios, including defence. Mr Formica was one of the best-known figures in the Socialist party and was seven times a minister, being finance minister from 1989-92 in the last two Andreotti governments. Both former ministers were issued with their warrants in Rome and were allowed to remain under house arrest.

Mr Franco Russo, the editor of the *Gazzetta*, was arrested as he was leaving his Bari apartment to attend the funeral of his father.

Former fugitive mayor faces corruption trial

By Andrew Jack in Paris

Mr Jacques Médecin, one of the first and most prominent subjects of France's recent clampdown on alleged public sector corruption, goes on trial today after four months in detention.

The former mayor of Nice who fled the country in 1990 before being extradited to France last November, will appear in a Grenoble court to face the first of several charges of corruption, allegedly committed while he was in office.

He is accused - in the "Nice-Opéra affair" - of siphoning FF2m (\$400,000) from an organisation created in 1982 supposedly to recruit opera singers who never performed in the city.

A judicial inquiry launched in 1990 argued that Nice-Opéra transferred the money to Costa Real, a Panamanian company with a registered office in Los Angeles, and Oceania Systems, based in the Isle of Man. This money reappeared in a personal bank account which was held by Mr Médecin in Los Angeles.

Mr Médecin argues he is innocent of corruption and that the money represented reimbursement of personal expenses.

His lawyer said yesterday he would argue there has been too long a delay to enable a fair trial to be held, and that the former mayor was in any case unaware of the allegedly corrupt source of the money in his account.

Mr Médecin, who lived a life as colourful as many of the film stars and members of high society he courted on the Riviera, developed a strong local following during his years in office.

His control of the city has been described as monarchic. He continued, almost without interruption, the grip his father Jean had held over Nice as mayor from 1928, and built a number of ambitious projects, including an art museum and theatre complex.

Supporters have remained loyal and some have called for his re-election. They feel "Jacquou" is a victim of persecution by his enemies and that his alleged crimes - even if true - are insignificant compared with those perpetrated more recently by other politicians and business executives.

The Cour des Comptes in Marseilles, the public expenditure watchdog, has already issued judgments against Mr Médecin in connection with three abuses of funds totalling more than FF600m.

After this trial, he faces another concerning receipt of FF4m from a road-sign company, and a retrial on maladministration charges for which he was sentenced in his absence in 1992 to a year in prison.

Mr Médecin fled France in 1990 for Uruguay via Japan, the US and Argentina.

Mr Jean-Dominique Deschamps, a senior executive of Compagnie Générale des Eaux (CGE), France's largest utility, was yesterday held in custody in Paris over corruption allegations involving the funnelling of money to Communist party officials on the Indian Ocean island of Réunion. David Buchanan adds from Paris. Mr Deschamps has already been put under formal investigation for his involvement in alleged false billing between CGE and a research company, Sicopar, associated with the Communist party.

Threat to library reignites Spanish civil war

Hostilities are breaking out over Catalan claims to national archives, writes Tom Burns

It is fitting that something scholarly should have raised Salamanca from its slumbers. The Spanish university town, which rivals Oxford and Bologna in antiquity as a seat of learning, is in revolt to defend a library.

Tomorrow evening tens of thousands are expected to join a silent march through the town's cobbled streets, past buildings where lectures have been delivered for more than 700 years, to the college of San Ambrosio, a former student residence that now houses the national archives of the 1936-39 Spanish Civil War.

On the steps of San Ambrosio's Baroque facade, Mr Jesús Malaga, the town's mayor, will read a statement signalling opposition to any attempt to break up the library's collection. He has posted municipal policemen around the college for the past two weeks to watch out for removal vans after the Madrid government struck a deal with the Catalan nationalist government in Barcelona.

The deal was that Salamanca's national archives would return to Catalonia the documents taken from Barcelona's autonomous government, the Generalitat, after Franco's troops crushed the Spanish

republic of the 1930s and along with it Catalonia's experiment with home rule. Mr Jordi Pujol, the current president of the Generalitat, which was restored in the post-Franco period, says the documents belong to the "intimate history of the Catalan people".

Salamanca - from its Socialist mayor to its Roman Catholic bishop - sees political horse trading behind the deal.

The Madrid government, they say, which depends on Catalan nationalists to remain in power, has handed Mr Pujol the papers in return for his continued support. "Our livelihood is being trampled because we live off culture and history," says Ms Nieves Hernández, news editor of *Tribuna de Salamanca*, the local newspaper.

The archives have been a useful source of income for the town because, in addition to scholars, it is used by thousands of Spaniards seeking documentary evidence to support claims for war pensions and reparations.

"If the Catalan files go then just about every other shelf will be emptied because the Basques and all the others will want their documents," says Mr Miguel Ángel Jaramillo, the chief librarian.



Image of war: an archive photograph of militia in Barcelona during the civil conflict

In the isolated grandeur of its cloisters, Salamanca feels hard done by. No motorway approaches it and its railway station, once a busy intersection, has been virtually closed. The potential loss of the Generalitat papers - 500-odd batches of files that have already been microfilmed and nearly 2,000 more that are still not properly classified - is viewed as the

unkindest cut of all.

Catalonia is as determined to have the papers as their present proprietors are loath to lose them. The body of opinion in Barcelona, from civic to church authorities and across the political and media spectrum, mirrors that of Salamanca.

Arguments about a nation's soul are ranged against rulings

by Unesco and other cultural bodies on the usefulness of keeping archives together in a single place. Accusations of "robbery" by Francoists in 1939 are countered by claims that possession, more than 50 years later, is at least nine-tenths of the law. "Who", asks Ms Hernández, "is robbing whom now?"

Out of this row two positive

developments - one for the university town and the other for Spain's historical archives as a whole - could emerge.

The first is that the Madrid government will seek to restore Salamanca's pride by improving its communications as well as providing additional benefits. An initial peace offer involves turning over many documents to the town to allow a post-Franco "democracy archive" to be built up.

The second is that Madrid's culture ministry, which has tutelage over all the state libraries and which took the decision to hand over the Catalan papers to Mr Pujol, will begin properly to fund archives, wherever they may be.

"The solution is to digitalise the Salamanca archives and store the original Generalitat papers in Catalonia," says Mr Rafael Borrás, literary editor of Planeta, the big Barcelona publishing company which has a large list of Civil War books.

"The real scandal is that all sorts of archives are in complete shambles, that there is no ruling on the availability of state papers and that Franco's documents, for example, are the private property of a foundation controlled by his family."

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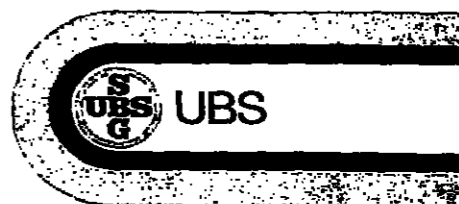
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Gingrich bids to save term limits plan

Congressman Bob Inglis of

Abortion high on political agenda

São Paulo to overhaul power sector

new subsidiaries, each covering a separate river basin. Distribution assets would be divided among as many as 30 new electricity distributors, which

State's finances 'worse than in crisis'

New governor finds the books in a mess, writes **Angus Foster**

With more than four times the gross domestic product of Chile and higher exports than

"It's totally absurd. We subsidise the kids of middle class parents while we cannot afford a free milk programme and primary school teachers salaries are \$141 a month," Mr Nakar says.



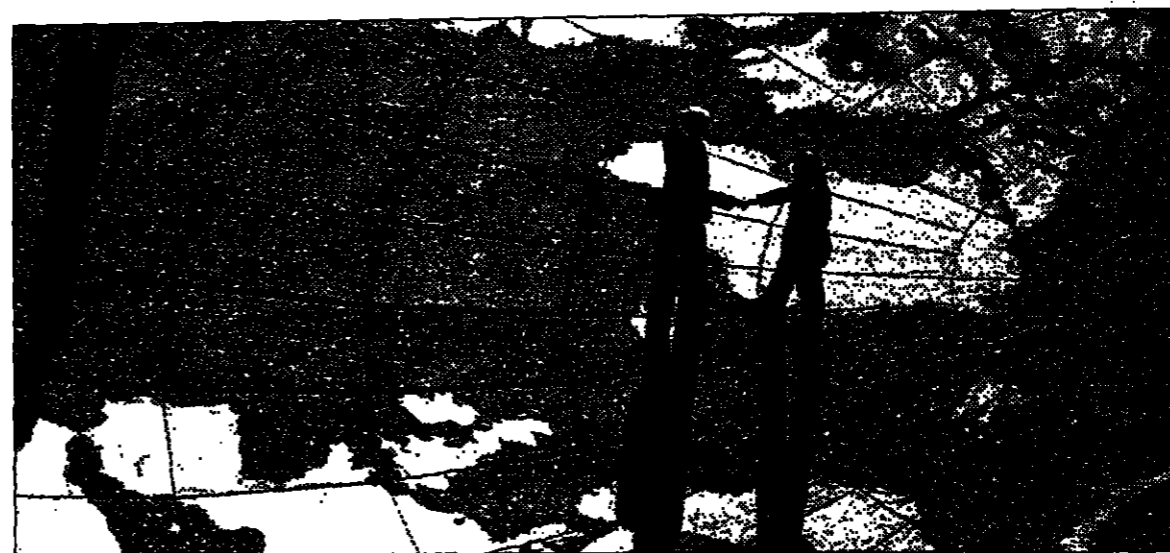
São Paulo's economic muscle - nearly half Brazil's biggest private companies have their head offices in the state - gives it the chance to overcome the financial crisis, even if it takes all of Mr Covas's five-year mandate. But analysts are divided on whether, during

Mr Cardoso is very keen to push through a range of constitutional changes this year. His desire for congressional support may make him more prepared than the central bank to negotiate with Mr Covas.

Rival states may quietly savour São Paulo's sudden hardship. But Mr Cardoso may wish he was negotiating with a stronger, richer Mr Covas rather than a governor having to count every last centavo.

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North Koreans offer Seoul secondary N-role

By John Burton Seoul

North Korea has offered to accept South Korea as a sub-contractor in the construction of light-water reactors promised to Pyongyang under last year's US-North Korean nuclear accord.

Although the proposal falls short of demands by Washington and Seoul that South Korea should be the main contractor on the \$4bn (\$2.4bn) reactor project, officials in Seoul regard the offer as a sign that North Korea is gradually backing away from a confrontation on the issue.

North Korea made the proposal during the last day of talks on Monday with the US in Berlin to resolve the disagreement over which country should supply the reactors.

Pyongyang said it would prefer the US as the main reactor supplier as part of an attempt to strengthen ties between the two countries. North Korea has cited political, economic and technical reasons for its refusal to accept South Korean-built reactors.

The US and South Korea are likely to reject the new North Korean proposal. But further talks on the reactor issue are

Delegates from parties in Japan's governing coalition and from North Korea's ruling Workers Party of Korea yesterday agreed to press for the opening of unconditional talks aimed at establishing full diplomatic relations between the two countries, Kyodo reports from Pyongyang.

Normalisation talks, started in January 1991, were broken off in November 1992 after eight rounds and have remained stalled. "It is a good time for resuming talks between the two governments on normalising relations between Japan and North Korea. I am hoping for a frank exchange of opinions in order to realise the expected results," Mr Michio Watanabe, Japan's foreign minister, said at the start of his meeting with Mr Kim Yong Sun, WPK secretary.

expected to resume before April 21, the deadline set by last year's nuclear agreement for the signing of a reactor contract.

North Korea also appears to have dropped its threat to scrap the nuclear agreement if

a contract is not concluded by that date.

Several Seoul newspapers reported yesterday that North Korea might eventually agree to accept the reactors from South Korea if Pyongyang receives additional financial assistance for the reactor project.

North Korea has demanded financing for related nuclear energy facilities, including transmission and distribution lines, reactor fuel storage units, and training simulators.

These facilities are not covered in the nuclear agreement under which the US promised that North Korea would be provided with light-water reactors and interim heavy fuel oil supplies in return for Pyongyang shutting down its plutonium-producing graphite reactors.

North Korea is also seeking additional compensation for the abandonment of its graphite nuclear programme and the loss of electricity from the closure of the nuclear plants.

The US, however, has so far rejected the demands for both additional compensation and more funds for new nuclear facilities.

Steelmaker that re-invented itself

William Dawkins on how NKK has adapted to a rising yen



What do the following things have in common: an artificial beach, an indoor ski slope, ice that crackles when you pour whisky over it and stretched limousines?

They are all Japanese and all by-products of the yen's appreciation against the dollar. They are examples of products made by the marine engineering division of NKK, Japan's second largest steelmaker, on being told 10 years ago, when the yen began its relentless rise, to reinvent itself or face a terminal decline.

Today, the formerly loss-making division produces a 10-15 per cent operating profit on annual sales of ¥10bn (£65.8m), according to Mr Seigo Abe, manager of the leisure specialities department of NKK, to reflect its new identity.

In changing its business, the division has moved from being a corporate headache to one of the few parts of NKK, heading for an estimated pre-tax loss of ¥50bn in the year to the end of March, to make any money. It is a model of the many Japanese manufacturers that have had to change their identities to survive the pressure of the high yen.

The yen's sharp appreciation

after the 1985 Plaza accord, plus the decline in world shipbuilding demand, had left NKK's team of 80 marine engineers without work for the first time in their lives.

Two lessons about Japan's adjustment to the high yen emerged from the NKK experience. First, the company was prepared to let the unit take startling risks in the search for new business, contrary to Japanese companies' reputation for only taking risks that have first been carefully calculated.

Second, NKK's financial support for its marine engineers' new voyage was never in doubt and without formal limit. "We were not asked to achieve norms. Our brief was simple - just find out how to survive."

NKK's pocket needed to be deep. The unit lost ¥500m annually for first three years of its attempt to diversify.

Mr Abe was recruited to marine engineering in 1985, after 15 years in NKK's new business department. On arrival, his first thoughts were that the new unit's greatest store of value lay in its tech-

nologies, including high performance welding, the design and test of ice-breakers and the production of wave pools for testing ship models.

Welding provided the inspiration for the first, unsuccessful diversifications - into fish farming and stretched limousines. "We thought that because we could make steel cages, we could farm fish, and that because we could weld thin steel sheets very strongly, that we could make cars," says Mr Abe.

In both cases, this proved wrong. NKK's fish farm proved unproductive, despite its finely welded fish pens. Stretched limousines produced by car companies somehow handled better on the road than the NKK versions.

The lesson, says Mr Abe, was to exploit technologies where NKK's expertise was greater than that of likely competitors. "We realised that our core technologies were in fact making ice and snow for ice-breaker testing equipment, and producing accurate waves for our model wave pool."

The jump from there to artificial beaches and ski-slopes was obvious, especially in Japan where the success of theme parks and computer games suggests that people are

sometimes fonder of artificial experiences than real ones.

A prototype pool at a water park in Osaka showed that NKK could make better surfing waves - more regular and even - than found in nature, claims Mr Abe. NKK first learned how to make its own water parks as a contractor, using its pipe lay-

ing experience, for two water-slide complexes in central Japan.

A chance for the unit to build and operate its own beach came in 1987, when NKK's steel division in the search for cost cuts, closed the company baseball team and the ground it occupied in Yokohama, near Tokyo. The marine engineering unit entered a competition on what to do with the land, and won the go-ahead to realise its tropical surfing fantasy.

Known as Wild Blue, the beach is now in its third year of business. It has lost money from day one, causing NKK to suspend plans for more resorts of this type. But the losses are being reduced, and Mr Abe reckons Wild Blue is close to break even, with nearly

800,000 visitors a year. NKK took less of a risk over the indoor ski resort, which opened two years ago in the Tokyo suburb of Funabashi. There, it was simply the designer and contractor for Mitsui Real Estate, the owner and operator.

In this case, NKK's core technology was an ability to make snow at even texture and temperature over a wide area, says Mr Abe. NKK's ice-breaker testing experience, incidentally, also accounts for the cracking ice cube, made from pure water under high pressure, so as to resemble an arctic iceberg. Air pockets trapped inside account for the noise, to be heard in drinks served at posh Tokyo clubs.

The success of artificial skiing at Funabashi could yet bring spin-offs for NKK, even though it has no share of the profits. NKK has been asked to provide quotations for similar resorts for US, UK and south-east Asian business interests.

In the meantime, Mr Abe's engineering boffins are dreaming up other ways of extracting fun from marine engineering, including a snow park and an artificial tropical island. This is the last of a three-part series on industrial adjustment in Japan.

WILD BLUE
YOKOHAMA

Growth eases in Australia

By Nikkai Tait in Sydney

Australia's economic growth rate has "moderated", but remains strong, the federal Treasury department said in its autumn round-up, released yesterday. The Treasury's assessment comes in a week which could prove crucial to Australia's future economic direction, with February current account figures, December quarter growth figures, and a rare public speech by Mr Bernie Fraser, the Reserve Bank governor, due to be released.

"Partial indicators released since the September quarter 1994 national accounts indicate that the pace of the growth in the non-farm sector has moderated, although remaining strong," said the Treasury. It added that growth in private consumption had followed a similar pattern, but noted that "growth in underlying inflation remains moderate" so far. Less encouragingly, it observed that "while wage growth continues to be moderate, it appears to have picked up in the December quarter".

Concern over Australia's economic direction crystallised in late November when non-farm

growth during the September quarter was shown to be running at an annualised 7.3 per cent. Since growth was being driven by domestic demand, fears of an inflationary outbreak and serious balance of payments problems mounted.

Interest rates were raised three times last year - both before and after release of these numbers - but many private sector economists still feel that a further rise is desirable. However, senior ministers have played down the possibility, a position which some commentators suggest is influenced by recent electoral setbacks, including last week-end's Canberra by-election, and the need for a federal poll within the next year.

Growth figures for the December quarter will be released on Friday, and market forecasts are for an annualised rate of around 5.8 per cent, including the drought-depressed rural sector.

The February current account deficit, meanwhile, is predicted to be around A\$3.3bn (£1.1bn) and is expected to present further evidence of imports being sucked in by investment expenditure.

ASIA-PACIFIC NEWS DIGEST

Delhi puts Bihar under direct rule

The Indian government yesterday announced it would impose central rule in Bihar to avert a constitutional crisis in the state, caused by a delay in holding elections. Angry leaders of Janata Dal, the state's former governing party, threatened to contest the move in the Supreme Court, alleging a conspiracy between the government and Mr T N Seshan, the chief election commissioner, with the aim of "murdering democracy".

The decision came on the last day of a violent election which had twice been postponed over security fears. One person was killed and over 20 injured in bomb blasts and street clashes in the traditionally lawless state, adding to the toll of eight people killed on March 25.

The central government of the Congress(I) party insists direct rule is needed because the state government, which continued as a caretaker administration beyond its statutory term, lacks authority to pass a budget, before the financial year ends on March 31. The new assembly is not expected to convene before the first week of April. Opposition parties say Mr Seshan and the central government deliberately fomented this crisis by refusing to allow the elections to be completed by March 15, when the old government's term finished, in the hope of unseating Janata Dal. *Shiraz Siddiqui, New Delhi*

Taiwan president's Mideast tour

Taiwan's President Lee Teng-hui plans to visit Jordan and United Arab Emirates early next month on a rare overseas trip likely to spark objections from Beijing, which regards Taiwan as a rebellious province. Mr Lee is to be accompanied by his foreign minister, economics minister and business leaders. The Middle Eastern tour was to have included a stop in Israel but this leg was cancelled, reportedly due to protests from Beijing. None of the three states have diplomatic relations with Taipei. *Laura Tyson, Taipei*

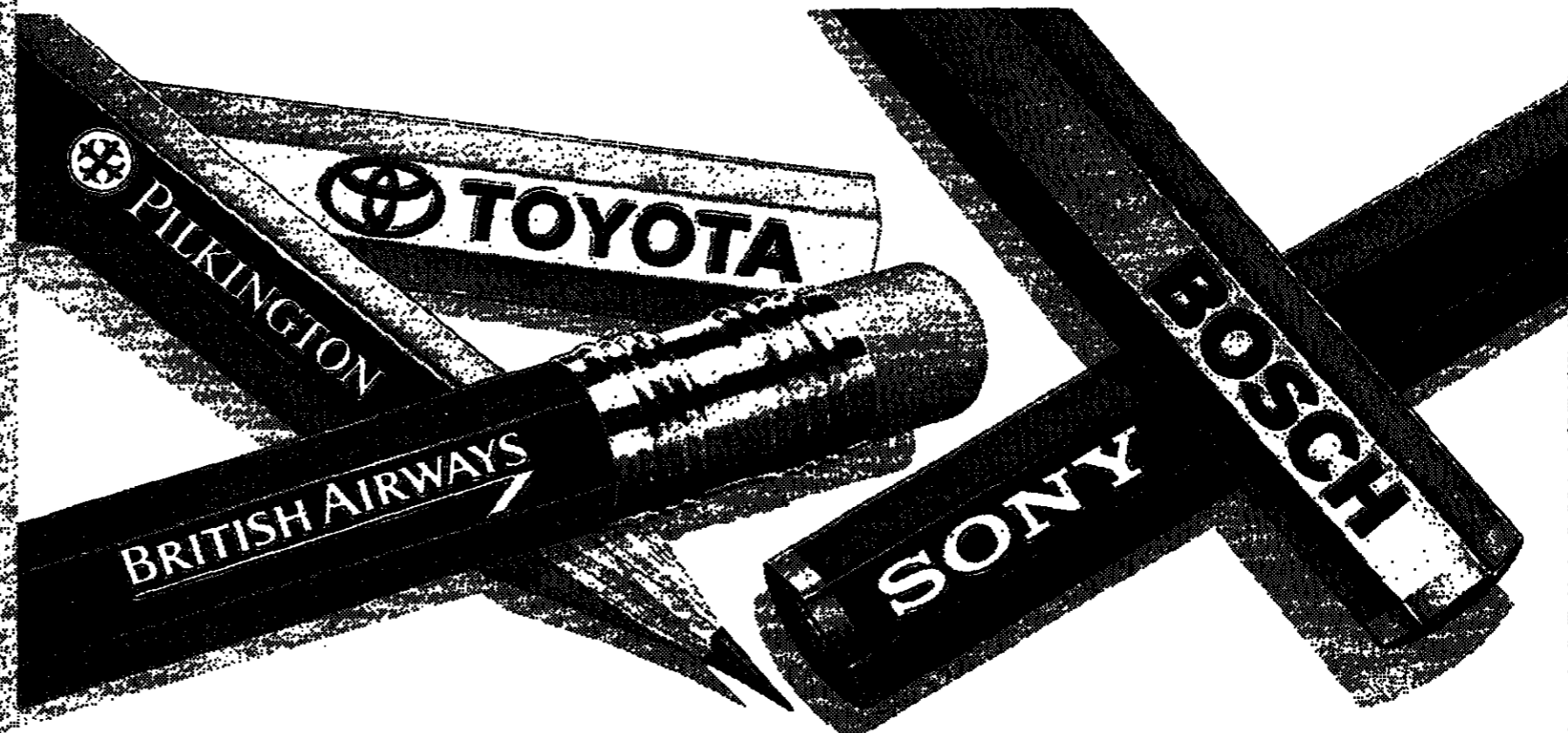
Indonesian GDP grows by 7.34%

Indonesia's gross domestic product grew by 7.34 per cent in 1994, according to preliminary figures using a new accounting procedure which takes 1993 as the base year on which to measure annual economic growth. The government predicted GDP would grow by a similar amount this year. Under the old system, which used 1983 constant prices, GDP would have grown by 6.81 per cent in 1994. *Manuela Saragosa, Jakarta*

Burmese rebels declare ceasefire

Burma's ethnic Karen rebels, on the defensive since the recent loss of their headquarters, have declared a ceasefire in a bid to open talks with the military junta. The Karen are one of two main ethnic rebel groups that have failed to reach an accommodation with the Burmese regime. The group has been seeking greater autonomy from the central government since independence in 1948. *AP, Bangkok*

SO MANY COMPANIES
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NEWS: WORLD TRADE

US threatens WTO complaint against Japan

By Nancy Dunne
in Washington

Mr Mickey Kantor, the US trade representative, is expected to raise the stakes in the US-Japanese dispute over vehicle trade with a public threat to file a complaint against Japan in the World Trade Organisation.

The action, the first of its kind by the US against Japan, could be taken against the Japanese vehicle market or it could be drawn more broadly against the country's overall trade regime.

According to Inside US Trade, a Washington newsletter, Mr Kantor last week wrote to Mr Ryutaro Hashimoto, Japan's trade minister, to warn that, unless a bilateral agreement is reached, he will go to the WTO with "a broad inquiry into Japan's lack of effective adherence to the market opening objectives of the WTO".

The complaint would include "an intensive review of how Japan has protected its automotive sector for several decades, continuing even

today". It would be filed under Article 23 of the General Agreement on Tariffs and Trade, which preceded the WTO.

The provision allows one country to withdraw tariff concessions from another if the latter's trade policies effectively "nullify and impair" tariff concessions previously negotiated.

Article 23 has been used in dozens of narrowly drawn cases, such as one brought by the US against the European Union soybean regime. For some time US trade lawyers have been advocating the use of the provision to challenge Japan's non-tariff barriers, such as excessive standards and testing regimes.

If the US turns to the multinational arena and succeeds, the case could be "the most historic challenge" ever brought before an international trade body, according to Mr Greg Mastel of the Economic Strategy Institute. Washington may then feel free to abandon unilateral threats and trade retaliation.

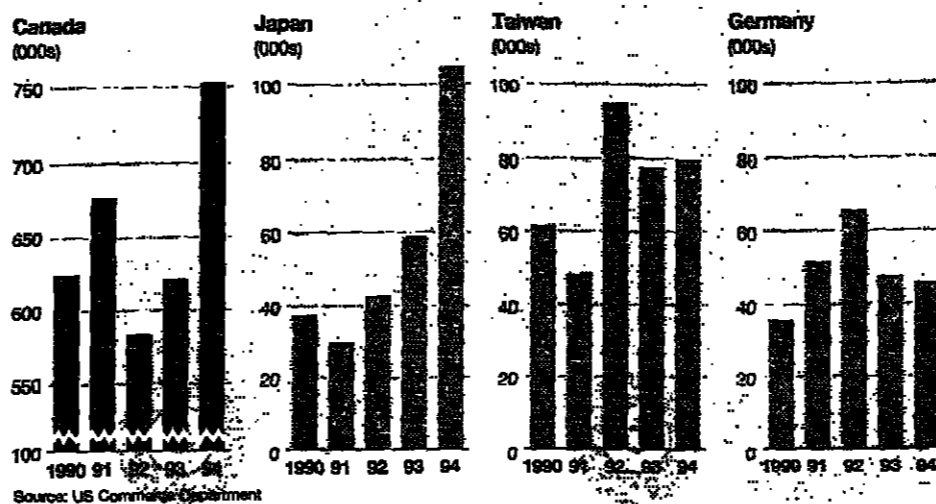
Talks between the US and Japan over better access to Japan's market for cars and car parts are "very difficult" according to Mr Ira Shapiro, the general counsel for the US trade representative. Reuter reports from Tokyo US commerce under-secretary Mr Jeffrey Garten said the US and Japan agreed that the pace of the talks needed to be accelerated.

Mr Shapiro said the talks were the last major issue yet to be resolved in the bilateral economic framework, and also one of the most difficult.

The US has been treating deregulation in Japan's replacement car parts market as a key issue in trade talks.

Japan has been threatening to take the US before the WTO if it imposes unilateral sanctions under Section 301 of US trade law. Some trade experts believe Japan will back down if faced with a wide challenge to its non-tariff barriers. Four years of US-Japan nego-

Imports of new US passenger vehicles and trucks



tations over the vehicle market have produced some tangible progress. The automotive component of the US trade deficit with Japan has been declining, from about two-thirds in previous years to 56 per cent in 1994, and the stronger yen is likely

to push it still lower. The number of cars built at Japanese plants in the US is rising steadily. Japanese companies have surpassed their 1990-1994 projections for purchases of US vehicle parts. Japan imports more US-produced vehicles than any coun-

try except Canada. US officials point out that the increases are from a low base, and they have been insisting on maintaining gains. In October Mr Kantor filed a complaint that Japan's stringent vehicle safety inspections hinder sales of US made

replacement parts.

The US Commerce Department has collected a list of what it considers to be unreasonable safety requirements. For example the addition of front brush guards to a recreation vehicle, a safety feature, requires a complete re-inspection that could cost up to \$3,000 (\$1,680).

The Japanese Automobile Manufacturers Association says US negotiators have indicated that the inspection issues cannot be resolved until Japanese companies agree to negotiate "voluntary" parts purchasing plans.

Last March five Japanese vehicle companies voluntarily announced new parts purchasing plans. US officials say the plans are inadequate because they do not include all US car producers and cover different time periods. JAMA said that, considering the "poor economic conditions in the Japanese auto sector, and in the economy" the announcements were "a further demonstration of the sincerity of Japanese auto companies".

WORLD TRADE
NEWS DIGEST

Ford plans \$2.5bn investment in Brazil

Ford plans to invest \$2.5bn in Brazil over the next five years. The US carmaker said the Brazilian market was growing rapidly and would overtake established markets such as the UK and Spain by 2000. The investment would be used mostly to modernise existing plants and to install a production line for its Fiesta small car.

Ford, which recently split up its Autolatina joint venture with Volkswagen, had seen its market share fall in Brazil, largely because it lacked a smaller car. Ford is the latest of several car makers to announce big investment plans in Brazil. Angus Foster, São Paulo

BA hopeful of aviation deal

Sir Colin Marshall, chairman of British Airways, said yesterday he expected the US and UK to agree a new aviation deal when talks resumed in Washington next month. Negotiations failed to reach agreement in London last week on how to liberalise air traffic between the UK and US. Sir Colin said he expected agreement in Washington on a "mini-deal", which would fall short of fully liberalised services between the UK and the US.

The two sides have been discussing proposals which would allow United Airlines to fly from Chicago to London's Heathrow airport and permit BA to increase its flights to Philadelphia.

The London talks stalled when the US side demanded greater access to Heathrow for all airlines. Sir Colin expected the US to drop this demand. Michael Skapinker, Aerospace Correspondent, UK Company News, Page 20.

Toyota's \$124m cars recall

Japan's biggest carmaker, Toyota, said yesterday it would recall 678,257 cars in Japan and 34,000 cars sold abroad to replace suspension components free of charge. The recalls are estimated to cost ¥11.1bn (\$124m). Defective cars sold in Japan are Mark II, Chaser, Cresta, Crown Majesta, and Aristo models. Defective cars sold abroad were Lexus GS300 models. Reuter, Tokyo

US AT ODDS IN WORLD TRADE ORGANISATION TALKS ON TELECOMS AND FINANCIAL SERVICES

Senate action sets alarm bells ringing for telecom negotiators

By Guy de Jonghues,
Business Editor

Negotiations in the World Trade Organisation to liberalise international telecommunications services markets could be undermined by a reciprocity clause in the US telecommunications reform bill now in the US Congress, trade diplomats said yesterday.

The clause, inserted by the Senate commerce committee last week, has alarmed the Clinton administration and the EU, which is mounting an urgent lobbying effort to persuade Congress to reconsider the proposal before it votes on the bill, probably this year.

"If this provision becomes law, we might as well all pack our bags and go home," one trade diplomat involved in the WTO telecommunications talks said yesterday. Another

described the committee's decision as "inappropriate and singularly ill-timed."

The proposal would make the planned removal of long-standing restrictions on foreign ownership of US telecommunications businesses conditional on authorities in the acquirers' countries providing "equivalent market opportunities" for US companies.

It would leave the administration little room for political manoeuvre by requiring that judgments on access to overseas markets be made by the Federal Communications Commission, an independent agency responsible to Congress.

The proposal also stipulates that the removal of restrictions be imposed on companies from any country which retreated from an earlier commitment to open its market to

US telecommunications operators. The proposal could be deleted or amended before Congress votes on the bill. But there are fears in Geneva that it may reduce the incentive for other countries to make concessions in the WTO - and could torpedo the talks entirely if it became law.

"The US seems to want things both ways," one trade diplomat said. "It is seeking a multilateral agreement with other members of the WTO, while threatening to extract concessions through bilateral trade action. But the two courses are completely contradictory."

Trade officials argue that the reciprocity provision is also unlikely to provide much leverage over Japan and other Asian countries, whose telecommunications markets Washington is keen to open,

because no telecommunications companies in these countries want to set up operations in the US.

The WTO telecommunications negotiations, part of the unfinished business left over from the Uruguay Round trade deal, are due to be begun in earnest soon, following the completion of a detailed study of member countries' markets. The negotiations, which are due to be completed by the middle of next year, have so far involved the US, the EU, Japan, and about 30 other WTO members, including Egypt, Hong Kong, India, Indonesia and Korea.

It is hoped that the talks will be joined by other developing countries and will result in an agreement to open basic telecommunications services at least partially to international competition.

US seeks fresh offers to clinch a deal by June

By Frances Williams in Geneva
and Guy de Jonghues in London

Washington is "a bit disappointed" by progress so far in multilateral talks on liberalisation of financial services, but agreement is still possible by the end-June deadline, according to a senior US treasury official.

Mr Jeffrey Schaffer, assistant treasury secretary for international affairs, said the US required "substantially improved offers" from a number of countries if it was to open its market on equal terms to all WTO members. He was speaking after a meeting of senior treasury and finance ministry officials at the Geneva headquarters of the World Trade Organisation.

Only the US, EU, Japan and Canada and four other nations have submitted written offers. Mr Schaffer said Washington was seeking satisfactory offers from all "commercially important" countries.

Financial services, which cover banking, insurance and securities markets, were put aside when the Uruguay Round of global trade talks ended in December 1993 after

it became clear that no satisfactory accord was possible.

Arguing that the market-opening offers of Japan and some other vital developing countries were inadequate, the US threatened to deny them the benefit of future liberalisation of its own market, for example, the relaxation of the current strict separation between commercial and investment banking.

However, the US intention to exempt this liberalisation from the normal requirement to grant equal access to all WTO members angered the EU which wanted firm access guarantees under the Uruguay Round accords.

Earlier this month the US formally confirmed it would lift its reservation on future liberalisation of financial services markets provided other countries improved their offers.

The US reached a bilateral deal with Japan in January on steps to open up the Japanese financial services market, a deal which must now be extended to other partners. However, Washington is still seeking better terms from some Asian and Latin American nations, including South

Korea, Malaysia, Thailand, India, Brazil, Venezuela and Argentina.

In a move designed to improve the chances of an overall deal, Brussels last week pledged not to activate a controversial reciprocity clause in its banking directive provided a multilateral agreement can be reached.

The increasing tradeability of banking services is creating "vast opportunities" for countries with the necessary information and telecommunications infrastructure, according to a study by the United Conference on Trade and Development.

New technology now allows specialisation in the production of many services or services components and thus an international division of labour similar to that in goods, the study says. The lowering of regulatory barriers in the Uruguay Round should give a big boost to trading in banking services, it says.

"The tradeability of banking services: impact and implications (Sales No.E.94.L.12), available from UN Sales, Palais des Nations, CH-1211 Geneva 10, fax +41 22 907 0027, \$50.

Debt threat from US credit pacts

By Nancy Dunne
in Washington

The use of US government medium-term credit guarantees to finance food shipments to former Soviet states has left the US farm export guarantee fund "heavily exposed to default" despite repeated debt restructuring programmes, according to a new report by the General Accounting Office (GAO) of Congress.

The report, Creditworthiness of Successor States and US Export Credit Guarantees, concludes that most, if not all, former Soviet republics are not creditworthy. It says their economies are in disarray, their political systems unstable, and investment conditions unfavourable.

Since western governments

began dispersing aid to the Soviet Union in 1989, arrears on official Former Soviet Union (FSU) debt rose from \$500m to \$1.8bn at the end of 1992 and \$8bn through the first half of 1993. Between July 1992 and March 1994, the secondary market priced FSU loans at an average of 26.8 cents on the dollar, according to Chemical Bank.

The report shies away from mentioning the political use made of the agriculture department's export guarantee programme. It was described as "aid" by US leaders when they were promising to help their old enemies "restructure", while described as "credits" for the farm sector, nervous about losing one of its best markets.

To US voters, most opposed to any "foreign aid", it was

barely alluded to at all.

Congress in 1990 specifically forbade the use of credit guarantees for foreign policy or foreign aid purposes. That was after Iraq defaulted on \$2.2bn in debt after invading Kuwait, and it was charged that some of the money had been used to buy arms and build chemical weapons. The Iraqi experience did not, however, prevent the US Senate from approving a non-binding resolution recommending the extension of \$1.5bn in guarantees in 1991.

Between December 1991 and September 1993, the US provided more than \$8bn in financial guarantees to the FSU and its successor states. During the same period the FSU accounted for 38 per cent of all US farm sales backed by medium-term (1-3 years) credits in

fiscal 1991, and 43 per cent in fiscal 1992. In June 1994 the US concluded the last of several rescheduling pacts with Russia - this one for \$2.85bn including principal and interest.

The US Department of Agriculture justified the continued programme saying it would prop up prices and thus reduce subsidies paid to US farmers. The GAO concluded that by giving export credit guarantees and added inducements to other potential buyers with similar generous terms, it is possible the US could have found alternative export markets.

Meanwhile, FSU demand for grains has fallen as there is no longer a need to prop up an inefficient livestock sector and domestic grain supplies have been freed for the market.

Japan's aid cartels face penalties

By William Dawkins in Tokyo

The Japanese foreign ministry will take punitive action against 37 companies accused of forming cartels for supplying equipment to Japan's overseas development aid programme, the world's largest.

Mr Kunihiko Saito, vice foreign minister, Japan's most senior career diplomat, said the bid rigging, uncovered by the Fair Trade Commission, was "regrettable". Penalties would be decided by a newly established committee of the

Japan International Co-operation Agency, the ministry's aid unit. Offenders are likely to be banned temporarily from tendering for foreign aid contracts, an agency official said.

The companies accused by the FTC include some of Japan's most prestigious trading groups, Mitsubishi, Marubeni, Itochu and Sumitomo among others.

The foreign ministry's decision to take action will be welcomed by the US and the European Union, which have long complained that Japanese com-

panies seize more than their fair share of contracts funded by the country's aid spending.

Japan budgeted to spend \$11.9bn at current exchange rates, on foreign aid in the fiscal year ending this month, up from \$11.3bn in 1993. Of the 1993 total, \$8bn was bilateral aid, over 80 per cent of which was jointed, with companies of any nationality able to bid for the projects.

The remainder, about \$1.4bn, is tied, reserved for projects undertaken by Japanese com-

panies organised themselves into three cartels, for contracts of up to ¥50m (\$558,000), ¥30m and less than ¥30m to secure contracts in the tied sector. The groups, believed to have been in operation for over seven years, met in May and July to designate winning tenders and organise bids in a such a way as to ensure a high price.

The agency is to introduce more competitive bidding rules for contracts above ¥25m, starting on April 1.

EU plans trade assistance for South Africa on two fronts

By Caroline Southey
in Brussels

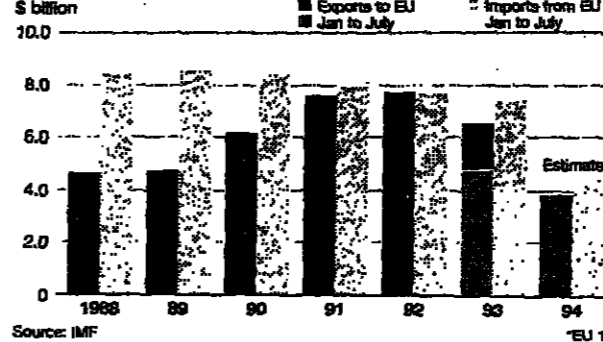
The European Commission is today expected to approve an ambitious framework for future European Union relations with South Africa which could lead to a free trade agreement between the two.

The framework proposes a bilateral deal between Pretoria and Brussels as well as a multilateral arrangement under which South Africa would become a "qualified" member of the EU's Lomé Convention giving trade preferences to 70 African, Caribbean and Pacific countries.

The twin-track approach reflects the fact that South Africa is neither a developed country nor a typical ACP country. "We are responding to the dual reality with a dual approach," an EU official said.

The framework drawn up by Mr João de Deus Pinheiro, the commissioner for ACP countries, is expected to be agreed by commissioners today but could face opposition from

South Africa's trade with the EU*



member states when it is put to a meeting of EU foreign ministers in April.

Member states will be particularly sensitive to the bilateral economic co-operation package. This proposes a free trade area, coming into effect over a 10-year transition period during which South Africa would be given improved access to EU markets without having to give simultaneous preferential treatment to EU exports.

About 20 per cent of South African exports to the EU are covered under Most Favoured Nation status while 7.7 per cent are covered under the EU's general system of preferences (GSP) which allows some products to be imported duty free and reduced duties on other products.

A free trade area would allow free movement of manufactured products and capital and progressive preferential

access for some agricultural products. The proposal suggests some products might need longer transition periods.

The EU has signed free trade agreements with, among others, eastern and central European countries and Switzerland. Under the accords, both parties eliminate duties and broader restrictions on most aspects of their trade.

The proposed relationship under the Lomé convention excludes South Africa from the bulk of the convention's preferential trade terms for items such as bananas, beef, wool and sugar as well as tariff-free entry for industrial products.

However, Pretoria could still benefit from Lomé's preferential tendering arrangement and through the preferential access for ACP exports made using South African inputs.

The EU's aid package would also be outside the Lomé Convention. The Commission has proposed an Ecu500m (\$655m) package to cover the four years leading up to the next South African elections due in 1999.



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US seeks new UN sanctions against Libya

By George Graham
in Washington and
Robert Corzine in London

The US is trying once again to win support for an international embargo on purchases of Libyan oil. The embargo would be designed to increase pressure on the government of Colonel Muammar Gaddafi to hand over the two Libyan intelligence officers accused of plotting the 1986 bomb that destroyed a PanAm aircraft over Lockerbie in Scotland, killing 270 people.

Mr Michael McCurry, White House press secretary, said the US had begun consultations with other members of the United Nations Security Council on extending existing UN sanctions, aimed mainly at denying Libya access to oil processing and transport equipment, to a full scale oil export embargo.

The embargo proposal follows one of the Clinton administration's periodic meetings with families of the US citizens killed in the PanAm bombing. Mr Anthony Lake, Mr Clinton's national security adviser, told the families that he would be looking for support from the UK and France.

The US failed last year to persuade other Security Council members to support tougher sanctions against Libya, which since 1982 has been subjected to a ban on aviation links and arms sales under Security Council resolution 748.

It is not expected to have more success this time. Several European countries, especially

Italy and Germany, are heavily dependent on Libyan oil supplies. Italy has argued that its refineries could not easily be converted to handle different types of crude oil from that supplied by Libya.

"It will not be easy to achieve, but I think it's a reflection of our commitment to try to put as much pressure as possible on Gaddafi and the Libyan government to turn over those two individuals for trial in the United States or the United Kingdom," said Mr Warren Christopher, US secretary of state.

But even such a close US ally and interested party as the UK has recently adopted a more liberal interpretation of the present sanctions regime.

These are aimed mainly at cutting off the flow of foreign equipment for Libya's oil processing and transport facilities. Oil exploration activities by foreign companies have been generally excluded.

Last year, however, the Bank of England refused to let UK oil companies send cash to Libyan subsidiaries. After appeals from some UK companies, it is now allowing them on a case-by-case basis to send fresh funds for exploration programmes. Foreign exploration operations have, however, been hampered by a shortage of some types of equipment covered by the current embargo.

In December Mr Clinton renewed the US's unilateral sanctions against Libya, which include a comprehensive trade ban and a freeze on Libyan assets in the US.

Israel's state-within-a-state on the retreat

Julian Ozzane on reform of the Histadrut trade union federation

No institution better reflects Israel's transition from socialism and state intervention in the economy to a free market society than the Histadrut, the country's trade union federation.

Once the Histadrut had 1.6m adult members, albeit bloated by a mandatory link with health services, and controlled large parts of the economy. It was a virtual state within a state and dictated policy to the country's Labour-led governments. Now, on all fronts, it is in retreat.

A reform programme is under way to reshape the organisation that was at the heart of forging Israel's socialist and Zionist state. Among the changes are reform of the federation's health scheme, an end to the link between membership of health insurance societies and the federation, sale of its industrial assets to pay debts of up to \$400m incurred through years of mismanagement, and restructuring the pension funds.

The reforms have been made possible by the election last year of Mr Haim Ramon, a disident Labour cabinet minister, who resigned from the government when the Labour party refused to back his health reforms.

Mr Ramon ran in the elections on an independent list and a platform of reform which captured the mood among a Histadrut membership fed up with machine politics and bureaucracy. His election broke Labour's stranglehold of the Histadrut which it had controlled since the organisation was established in 1920 and ushered in a new era in the federation reflecting the changes across Israel's society and economy.

"The leadership of the Histadrut in the last decade had bankrupted the organisation, lost the faith of its members and had the image of an old corrupt establishment that had lost touch with its goals," said Mr Ramon. "We are trying to build a new trade union from scratch which will be more like the German or the Scandinavian model which will concentrate on defending the rights of workers rather than controlling their lives."

The shake-out has not been easy. Mr Ramon has revealed a crisis in the Kupat Holim, the Histadrut health insurance scheme and a financial disaster in the union's pension fund which has a deficit of \$160m (\$1.6bn). Police are also investigating fraud and misuse of funds in Histadrut support of candidates in the 1992 Labour

party primaries. At least three officials have been arrested and released on bail. Several others were interrogated this week and officials expect police to question Mr Yisrael Kessar, transport minister and former Histadrut head, within days.

One of the most important reforms being carried out by Mr Ramon is retiring the Histadrut from its role in the economy. The Hevrat Ha-Ovdin, the economic and investment arm of the Histadrut, was until the 1980s Israel's largest industrial and agricultural conglomerate. It was the second largest employer after the state with 110,000 workers in its enterprises and accounted for more than 30 per cent of industrial output. It was so big that analysts used to talk about the "Histadrut economy".

The economic crisis in Israel of the 1970s and 1980s exposed the mismanagement of Histadrut companies, most of which made huge losses. The economy was unable to accommodate such a large corporate player whose belief that full employment and workers rights were more important than profits exacerbated the crisis to the point that the government could no longer afford to bail them out.

Reform and restructuring of Histadrut companies was the

hallmark of the 1980s but many in the federation never gave up their hope of returning to Histadrut to its former glory.

Mr Ramon, however, has now ended those dreams. Earlier this month the Histadrut announced it had negotiated to sell its remaining 22.5 per cent stake in Koor Industries, a leading industrial conglomerate once the backbone of the union federation's assets, to Shamrock, a US investment group, for \$252m.

Reform of the health insurance scheme has also marked a watershed, breaking the mandatory link between membership of the scheme and membership of the Histadrut.

"Now we are going to fight to build a real membership," said Mr Ramon. "If we can get 400,000-500,000 real voluntary members that will be a big accomplishment."

Prof Abraham Friedman, Hebrew University professor of industrial relations, said even more important has been Mr Ramon's decision to include the opposition within the decision making and executive process for the first time in the Histadrut's history.

Prof Feldman said Mr Ramon's reforms mark the culmination of a process of "Americanisation" where the Histadrut is moving away from



Ramon: 'We will fight to build a real membership'

its political and economic role towards a more "business-type" role defending specific workers' rights.

"For the country it marks the ending of ideological movements which are outdated and don't have a place in a new world where Israel is becoming a capitalist American-type society," he said.

Some analysts believe the reforms point towards a post-Zionist agenda which no longer

makes immigration and state-building the central aim of Israel's enterprise.

Mr Ramon denies this but he said: "Zionism was supposed to build a normal state for Jews to live in. Now it's time to become normal in peace and prosperity where every individual can pursue his own dreams. We want to become a normal social democratic society like western European states."

INTERNATIONAL NEWS DIGEST

ANC isolates Mrs Mandela

Mrs Winnie Mandela, sacked on Monday from South Africa's government of national unity, appeared largely isolated yesterday within the ruling African National Congress. The estranged wife of Mr Nelson Mandela, the president, made no immediate attempt to hit back as senior ANC members, politically affiliated organisations and trades unions issued statements declaring support for her dismissal as deputy minister of arts, culture and science. Even ANC members closest to Mrs Mandela were careful not to criticise a decision which Mr Mandela made clear he had taken personally.

While this is widely seen as confirmation of Mr Mandela's political pre-eminence, few observers doubt a radical group will emerge within the ANC and will be jockeying for power when Mr Mandela leaves office in four years' time. *Roger Matthews and Michael Holman, Johannesburg*

UN conference tests diplomacy

The United Nations conference on climate change in Berlin passed its first hurdle yesterday, but only by agreeing to duck the issue of rules of procedure until next week. Discussion of the rules for voting requirements needed to pass decisions, was postponed to allow Mrs Angela Merkel, Germany's environment minister and president of the conference, more time for informal soundings. The conference, with more than 1,000 delegates from 130 countries so far, is a follow-up to the 1992 Earth Summit in Rio de Janeiro. Its goal is to establish a basis for cutting man-made air pollution into the next century. Contentious issues include co-operation between developed and developing countries over reductions in greenhouse gas emissions - known as joint implementation. *Haig Simonian, Berlin*

Tutsi refugees promised homes

Burundi's prime minister said yesterday he would establish ethnic ghettos in the country as ripples of the weekend's violence spread from Bujumbura to the provinces. Mr Antoine Nduwayo told university students he would find new houses and land for displaced Tutsis who fled their homes in the massacres that followed the October 1993 assassination of the country's first democratically-elected president, Mr Melchior Ndadaye, a Hutu. Mr Nduwayo later told reporters he was willing to create Tutsi villages in the countryside since it was the only solution to the 18-month problem of the displaced who are too scared to return to their homes. About 100 French and other European expatriates left Burundi on a flight provided by the French government yesterday. *Reuter, Bujumbura*

Beirut developer's rosy results

Solidere, the company established to rebuild downtown Beirut and the brainchild of Mr Rafiq Hariri, the Lebanese prime minister, is posting rosy results, despite a slow start to reconstruction. Mr Nasser Chammaa, Solidere chairman, said yesterday net income for the first six months of operations in 1994 reached \$18.1m (£11.4m), only slightly below projections. This was the result of \$24.4m of interest income as the company has yet to post any real revenue. Solidere, which raised \$650m in 1993 from Lebanese and other Arab investors in an oversubscribed issue at the end of 1994, is charged with building the infrastructure and some developments in what used to be the heart of the Lebanese capital. It will then sell the land to other developers and rent out the commercial space. Revenues are expected to begin trickling in some time this year. *Roula Khalaf, London*

Protestors burn Bahrain bank

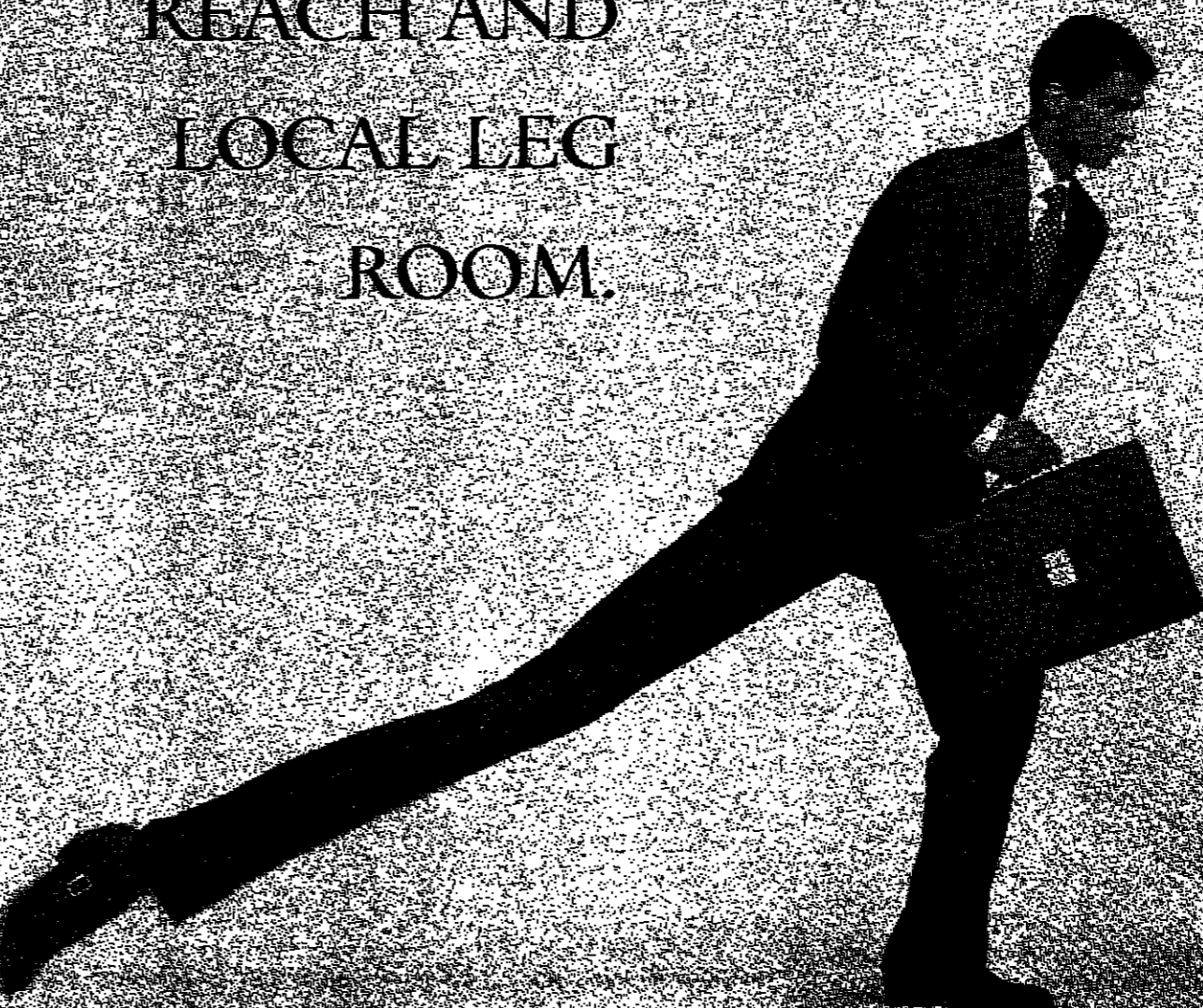
Islamic bank was torched and students at a school for girls rioted yesterday in anti-government protests in the Gulf state of Bahrain. The disturbances have erupted mainly in Shia Muslim districts to press for the restoration of parliament and jobs for unemployed Shia. Demonstrators burned a small branch of the Bahrain Islamic Bank in Jidhafs, a densely-populated Shia suburb where tension has remained high since riots in December rocked this small Gulf island. About one-half of indigenous Bahrainis are Shia Muslims, while about one-third of the island's 600,000 population are expatriates. The rest, like the ruling Al-Khalifa family, belong to the Islamic mainstream Sunni sect. The protesters also demand the release of detainees rounded up in scattered bouts of unrest over the past three months. *AP, Manama*

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AIR FRANCE INTRODUCES PASSENGER RIGHTS

NEWS: UK

Conservatives agitated by broadcasters' 'bias'

By Kevin Brown,
Political Correspondent

Mr Jeremy Hanley, the Conservative party chairman, yesterday intensified the government's assault on allegedly unfair BBC reporting by reactivating the party's media monitoring unit to gather evidence for complaints of bias.

Mr Hanley's decision to re-establish the unit, last used during the European election campaign in 1994, followed a fresh volley of attacks on

the BBC by ministers campaigning for the local elections in April and May.

Conservative officials said the unit would begin monitoring broadcasting companies "within a few months," as part of the party's preparations for the next general election, which could be up to two years away.

However, the timing of the decision recalled Lord Tebbit's establishment of a similar unit in the mid-1980s, at the height of Conservative

complaints about BBC coverage of Baroness Thatcher's second administration.

"There has been a pattern of ministers being given tougher treatment by a number of broadcasters than is given to our opponents. We are not saying we want to be asked soft questions. We want equal treatment," a senior official said.

In the Commons, Mr John Major appeared to distance himself from the row by drawing attention to Labour complaints about the BBC,

suggesting that the corporation was even handedly upsetting both main political parties.

However, Conservative officials said the prime minister remained firmly behind the campaign against the BBC, which began with an attack by Mr Jonathan Aitken, Treasury chief secretary, on the Today programme on radio 4.

The latest ministerial attacks on the BBC were prompted by the corporation's coverage of a Labour survey highlighting increases in crime

since 1979. Mr Michael Howard, home secretary, claimed that the survey was based on old figures, and was given greater prominence than news that electricity prices are to fall.

Mr John Redwood, Welsh secretary, said the Today programme had failed to press Mr Jack Straw, shadow home secretary, on the relevance of the crime figures.

Some senior Conservatives doubt the wisdom of attacks on the media. Sir Edward Heath, the former prime

minister, said ministers should "get down to the brass tacks of answering the points which have been made."

Mr Hanley said it was widely accepted that "news could be fairer," and accused the BBC of accepting "nonsensical" council tax figures distributed by Labour last week.

Mr Hanley told journalists to "stick to the news of the day" when challenged about his future as party chairman. "Your business is news, not speculation."

P&O says liner will sail on schedule

By Jimmy Burns in London
and Judy Dempsey in Berlin

P&O, the British shipping and property group, said last night that its new luxury liner, the Oriana, will sail on its maiden voyage from Southampton on the scheduled date of April 8, although its original handover by its German builders has been delayed.

Mr Gwyn Hughes, managing director of P&O Cruises said: "There is no reason for passengers who have booked to be worried about the maiden voyage. The Oriana will set sail on that date."

P&O last week was forced to postpone a series of planned celebrations after being told by Meyer Werft, the German shipbuilder, that the ship was unable to be handed over on schedule.

The ship has since had some damaged propellers repaired and is expected to complete the latest of a series of sea trials by today.

P&O said that bad weather to the North Sea had caused a twelve hour delay to the completion of the trial this week. However, Mr Hughes said that he had been assured by senior executives of the German shipbuilder yesterday that the Oriana would be ready to be officially handed over to its owners by this Friday.

Under its original schedule, the 69,000-ton Oriana was to have been handed over in Germany last Friday before sailing into Southampton to the first of a series of on-board celebrations the next day.

The Oriana is now expected to arrive in Southampton next Monday, in time for the Queen, who is booked officially to name the ship on April 6.

The Oriana - which P&O describes as its "superliner" - has been built at a cost of £200m, and its first cruise around the Mediterranean was fully booked nine months ago.

Some 1,600 passengers worldwide have paid from £1,499 to £5,320 (£2,380-£8,460) a person for tickets.

Mortgage loan figures point to lack of recovery

By Alison Smith

Further evidence of the lack of recovery in the UK housing market came yesterday in figures showing that new mortgage lending by banks last month was at best still only at levels of a year ago.

New gross lending was very slightly higher than in February last year, at £1.1bn, (£1.74bn) but the number of new loans approved but not yet undertaken slipped on the basis of the same comparison.

New net lending, which takes account of the extent to which home loans have been repaid, showed a bigger fall. On a seasonally adjusted basis this dropped 5 per cent in February compared with the same month last year, and 8 per cent compared with January this year, to stand at £597m (£850m).

Mr Tim Sweeney, director-general of the British Bankers' Association which compiles the statistics, said it was clear that confidence in the housing market remained low.

He said: "With a further reduction in mortgage interest rates imminent it is perhaps surprising that lending has not been more depressed."

The numbers of new loans approved in February was 23,020, against 23,457 in February last year.

Although the dip was shallow, this was the first time for some months that the trend has been towards a lower fig-

Banks' mortgage lending



Source: British Bankers Association

ure compared with the previous year.

The depressed state of the mortgage market is not limited to banks. Last week the Building Societies Association reported figures for new lending which underlined the impression of flatness in the mortgage market, with a fall in new lending compared with a year ago.

Spending on credit and debit cards rose strongly last month as consumers continued to switch away from cash and cheques, Richard Wolfe writes.

Total spending using cards totalled £4.87bn, a rise of 18 per cent from February last year. Debit card purchases grew 25 per cent, compared with a 15 per cent rise in credit card transactions.

Lawyers set to breach inner sanctum

By Jim Kelly and Robert Rice

The British government yesterday moved ahead with reforms which could eventually take the private sector into Whitehall's inner sanctum. The Treasury, Inland Revenue and Customs & Excise are drawing up a short list of those who might be interested in drafting parts of the 1996 Finance Bill.

Yesterday Sir George Young, financial secretary to the Treasury, said he wanted to hear from anyone with the right experience who might want to tender for the work.

"There has been a lot of interest in this project since the chancellor announced it last month. A number of people have already written to the chancellor and me asking for an opportunity to play a part," he said.

The pilot scheme threatens the virtual monopoly enjoyed

by parliamentary counsel - government lawyers who draft legislation - which dates back to Gladstone's first premiership in 1868.

The Association of First Division Civil Servants has already attacked the move, saying that it will lead to serious conflicts of interest and that the real costs will not be apparent in government accounts.

The move coincides with a growing awareness that tax legislation is becoming too complex. It is known that Treasury ministers are very interested in promoting legislation which is simpler, readable, and explains its purpose.

The Treasury said that in drawing up a short list consideration would be given to a candidates with:

- experience in drafting bills or other legal documents
- knowledge of tax law
- knowledge of parliamentary procedure

• sufficient resources to complete the project

• adequate security arrangements

• and the ability to avoid conflicts of interest

There was a mixed response from legal firms. Most lawyers believe recent tax legislation has become far too complicated, but they expressed doubts as to whether tax lawyers had the necessary skills to draft laws as clearly or as quickly as the parliamentary draftsmen who have been doing the job for years.

Mr Malcolm Gammie, head of tax at City solicitors Linklaters & Paines said in theory his firm would be interested in tendering for the work. "Depending on the terms on which tenders are invited we would give it serious consideration," he said.

Mr Gammie thought it was unlikely that drafting would present law firms with serious

conflicts of interest between the government on the one hand and corporate clients on the other. "My understanding is that sensitive bits of legislation, such as anti-avoidance provisions won't be put out for tender," he said.

Other firms were more cautious, however. Mr John Watson head of tax at City solicitors Ashurst Morris Crisp, said his firm would not be interested in tendering. The partner chosen to do the drafting would be privy to confidential information and would not therefore be in a position to advise clients. Law firms would need to have sizeable tax departments before they could afford to put one of their best tax partners into purdah, he said.

Mr Richard Ballard, head of tax at Freshfields said his firm would look very closely at the government's proposals particularly in the business tax area, but the idea was unlikely to provide a quick fix to the problem of increasingly complex legislation. "Ideally, I'd like to see selective tendering acting as a catalyst for combining the expertise of the parliamentary draftsmen with the commercial approach of the end users," he said.

Leading accountancy firms, however, are likely to express an interest in the work. They have joined growing criticism of this year's finance bill - the second longest on record. The big firms are also used to building so-called "Chinese walls" between various parts of their businesses. Many firms have also gained experience of drafting legislation in the developing world.

The scheme will be subject to an evaluation in terms of cost, quality, security, and efficiency. Applications must be with the Treasury by April 21.

Aviation insurers warn over lost business

By Ralph Atkins,
Insurance Correspondent

London aviation insurers are losing business as a result of more aggressive pricing in overseas insurance markets - even though last year was by far the worst on record for world airline claims, UK-based underwriters warned yesterday.

The steep jump in losses - caused by the high-value of aircraft destroyed and the countries in which incidents occurred - more than offset any increases in premium rates that underwriters were able to obtain, said Mr Jeff Weston, chairman of the Aviation Insurance Offices' Association.

But the unprofitability of underwriting aviation insurance had not stopped some premium rates falling, underwriters said. This is largely because of competition from insurance markets in France, elsewhere in continental Europe and in Bermuda.

Mr Weston said he could not understand the reasoning "that is creating a situation where the main London orders on many airline renewals are being reduced as other markets compete for business at lower terms."

The association represents the London company aviation market. In total, the London market, which also includes Lloyd's, accounts for about a half of the world aviation insurance market.

Of particular worry for London insurers, the lead underwriters of a number of airlines' policies, including Qantas and Aer Lingus, have switched in recent years to the French market - although the impact on the volume of business in London is not clear.

Total airline insurance claims reached \$2.2bn last year. Much of the increase was due to the incidence of large incidents in the US and Japan where liability awards are higher. The number of crashes and fatalities were broadly in line with the average of the past few years.

Airclaims, an insurance consultancy, estimates earned premiums in 1994 were about \$1.3bn - suggesting the

industry made a underwriting loss of \$900m before expenses.

Some extra income would have been earned, however, from investing premiums.

Airclaims suggested airline rates needed to increase by a further 70 per cent just to meet the 1994 level of claims and perhaps double to cover operating expenses and produce a reasonable return for insurers.

Of last year's incidents, the largest claim is believed to have resulted from the crash in September of a USAir aircraft near Pittsburgh, US, which killed 127 passengers and five crew. The cost to insurers is estimated to have been about \$400m.

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Power companies set for fuel deal

By Michael Smith

BNFL, the nuclear reprocessing company, and Nuclear Electric, the nuclear generator for England and Wales, are expected to announce shortly, probably this week, that they have agreed a deal to settle a long running dispute involving contracts worth billions of pounds.

The contract for BNFL to make and reprocess fuel for Nuclear Electric stations were worth more than £13bn (£21bn) when negotiated in 1991. They came unstuck the following year when the government made clear it would not take a share of the regulatory and commercial risk.

BNFL and Nuclear Electric - both

state-owned - are understood to have reached heads of agreement on a new deal. It could be finalised on Friday when BNFL's board is due to meet to endorse it.

The original deal involved BNFL making and reprocessing fuels for all Nuclear Electric's stations for the rest of their lives. They also envisaged BNFL making fuels for the generation company's advance gas-cooled reactors and reprocessing them for half of the stations' lives.

Some of these arrangements are likely to have changed. In addition the lives of some of the Magnox stations have been extended.

Final negotiations have coincided with an increasing likelihood that

Nuclear Electric will lose ownership of the eight Magnox stations, six of which are still producing electricity, in the forthcoming review of the nuclear industry by the government.

One possibility is that the stations will be handed over to BNFL. The contracts are likely to be structured in such a way that make provision for potential changes in ownership.

Earlier this month Scottish Nuclear, the state-owned nuclear generating company for Scotland, ended a similar contractual dispute with BNFL in a £4bn deal. The arrangement means Scottish Nuclear will abandon plans to store spent nuclear fuel at its power stations in favour of sending it to BNFL's Sellafield facility in Cumbria.

The two deals provide a much-needed boost for BNFL, which has been looking for new business for its Thorp reprocessing plant on the Sellafield site.

Thorp, which started full operations last month, has been hit by cancellations from two German utilities for its second phase of operations after 2005. British Coal has completed the sale of CRE Group, which carries on the consultancy, technical services and laboratory scale research and development of the former Coal Research Establishment.

The purchaser, for an undisclosed sum, is BNC Group Holdings, the holding company for the International Mining Consultants Group. CRE employs 80 staff and has annual sales of £5m.

UK NEWS DIGEST

Investors to benefit in merger plan

Up to 10m people could be given free shares worth about £600 (£854) after the London high court yesterday approved plans by the Halifax and Leeds Permanent, two of the UK's largest building societies, to merge and become a bank.

In addition, several hundred thousand of those stand to gain a further £2,500. The court ruling clears the way for the largest single extension of share ownership in the UK. Under the deal, mortgage holders, employees, pensioners and all investors who had balances of at least £100 on November 25 will be entitled to a "basic distribution" of a fixed number of free shares.

In addition to this windfall for borrowers and small savers, investors of more than two years' standing, who have share balances of £1,000 to £50,000, will receive free shares broadly proportional to their balances. The two societies intend to merge in a combined organisation with a market capitalisation of £28m-£100m at today's stock market values. They will then convert to become a bank, but both stages of the deal must be approved by their members.

The high court ruling resulted from a challenge to the two-part scheme by the Building Societies Commission, the sector's statutory regulator, under the 1986 building societies act. Alison Smith

Fuller disclosure on directors' pay urged

The UK's largest institutional shareholders called yesterday for the companies in which they invest to disclose more information on directors' pay.

Mercury Asset Management, which manages investments worth about £53bn, said that if necessary it would support legislation to force companies to provide full details of executive pay packages - including pensions and share options benefits - and the basis on which they were fixed by remuneration committees.

Giving evidence to the Commons employment committee, which is investigating executive pay, Mr Hugh Stevenson, chairman of MAM, said: "I would be prepared to support the introduction of legislation if that was the only way of increasing the level of disclosure."

British deficit double limit under Maastricht

The British government budget deficit last year was more than double the limit permitted under the Maastricht Treaty for European economic and monetary union, according to government figures released yesterday.

The Central Statistical Office said the deficit, measured by the European system of integrated accounts, was £46.1bn or 6.9 per cent of GDP in 1994. This compared with 7.9 per cent of GDP in 1993 and the 3 per cent Maastricht deficit ceiling for Emu.

Although higher than in 1993, the UK's general government gross debt was well within the Maastricht ceiling of 60 per cent of GDP at the end of last year. It totalled £344.9bn or 50.3 per cent against £304.6bn or 48.5 per cent at the end of 1993. Mr Kenneth Clarke, the chancellor, has said the UK will be one of the first of the larger European Union states to meet the Maastricht criteria later in this decade. Peter Norman, Economics Editor

Top Daewoo executive to head cars operation

Daewoo, the South Korean industrial conglomerate, has appointed its most senior representative in Europe to take control of Daewoo Cars, its wholly-owned UK importer and distributor which starts selling the Korean-built cars next week.

Mr Tong Won Rhee, 51, is becoming managing director in place of Mr Leslie Woodcock, who left the company abruptly in January after seven months in the job and who has subsequently issued writs alleging unfair dismissal.

The appointment was announced yesterday as Daewoo Cars continued final preparations for next Monday's launch, in which Daewoo is offering to replace the first 1,000 cars sold to the public with new N-registers cars on August 1. Mr Rhee is already an executive managing director of Daewoo Corporation and since 1990 has been managing director of Daewoo UK, which controls all UK operations of Daewoo, the world's 33rd largest industrial conglomerate. The cars operation has been run since January by Mr SK Kim, who remains as deputy managing director. Daewoo, which is investing £150m in its UK car sales operations, is using the UK market as an experiment to sell its Nexia and Espero cars through a wholly-owned sales network rather than independent dealers. John Griffiths

Ferry plans announced

Plans for a high-speed cross-Channel passenger ferry service linking Brighton with Boulogne were announced yesterday. Brighton Ferries, part of FBP Holdings, will launch a catamaran service on May 6 linking the two ports in less than two hours. The two return crossings daily will each carry up to 315 passengers.

The service, which is expected to charge £20 (£31.80) for a standard day-return trip, will run from Brighton Marina to the centre of Boulogne during the summer months. It will create about 30 jobs in Brighton. Charles Batchelor

Profit-related pay schemes grow: The number of employees covered by registered profit-related pay schemes rose 29 per cent in the fourth quarter of last year to 2,424,400 from 1,875,700, according to figures released yesterday by the Inland Revenue. There are now 8,956 schemes, a 15 per cent increase over the period.

Shoppers just want to have some fun

Mr John Downing, northern area manager for Gadget Shops, can barely conceal his glee. Two years after the chain opened its Newcastle shop, sales of "adult toys" are booming. Turnover in the Christmas period was 20 per cent higher than in the same period a year before. And though the January sales are now over, people are still crowding into the shop to purchase items such as "pleased people" dolls in jars.

Flashing Freddy models and executive toys.

"If this is a retail recession we can't wait to see a recovery," says Mr Downing.

The Gadget Shop's success in Newcastle flies in the face of conventional wisdom among many retailers and economists that consumers have shrugged off the frivolous spending habits of the 1980s.

But there are other aspects of consumer behaviour this year that are puzzling economists trying to make sense of conflicting data.

On the one hand are surveys that suggest the UK's shopping centres are operating under a cloud of gloom. Last month, retailers told the Confederation of British Industry survey that they faced the worst trading conditions for more than two years. Recent Gallup surveys have suggested almost twice as many households are pessimistic about their finances as are optimistic, partly because of a lingering sense of job insecurity. Meanwhile, Mr Kenneth Clarke, the UK chancellor,

British consumers are spending - but are being more selective, say Gillian Tett and Chris Tighe

recently admitted that he did not expect any return of the festive factor before the next general election.

However, other data contradict this sense of depression - as does the experience of some retailers.

Nationally, the underlying trend in retail sales has been broadly steady in recent months after growing by 3.7 per cent last year. Although this is a much slower rate of increase than in the 1980s, it is only slightly less than the overall growth in the economy. Consumer expenditure - which includes much more than spending in shops - has continued to rise steadily, in spite of the tax squeeze on household budgets.

Locals point out that Newcastle is not always typical of the whole country. There is a tradition of spending money when it is available, rather than saving. And the level of home ownership is much lower than in more affluent parts of the country, which meant that Newcastle suffered less from the effects of the recent recession in the housing market than the south-east.

But the city's experience highlights a trend that has been obscured by the impact of negative equity on consumer confidence in regions such as the south-east. Whatever the overall figures say about the consumer mood, the detailed

spending figures show that some sectors have been hit much more than others.

Financial insecurity is squeezing some areas of spending, particularly "big ticket" items that might lock consumers into long-term borrowing commitments.

The housing market has remained broadly flat in most parts of the UK, while new car sales fell across the country in February for the fourth successive month.

Mr Cliff Thornton, finance director of Patersons, a Newcastle Ford dealer, says: "New retail sales, to private motorists, have dropped around 3 per cent over the last 18 months, against what we were expecting to be between a 5 per cent and 10 per cent increase."

There is a growing tendency, he adds, for private motorists to opt for nearly-new cars instead of brand new ones, making substantial savings.

The lack of movement in the home market means that sales of related goods, such as furnishings and white goods, have yet to take off, according to Mr George McDonald, manager of Newcastle's Eldon Square shopping centre. "Home buying is the pressure area," he says.

However, sales of other, cheaper items such as some sectors of fashion or clothing have been relatively buoyant - so long as prices are seen as competitive. "For [customers]

to buy, the price and quality have to be right," says Mr Jeffrey Legg, managing director of Fenwick's Newcastle department store.

Indeed, some Newcastle retailers believe consumers are stepping up spending on some "frivolous" items to compensate themselves for abstaining from long-term commitments.

As Mr Forbes Turner says: "Customers are not buying long-term items like a fridge, unless it breaks down. But they are buying fabrics and furnishings, which are cheaper than a fridge and can give you a bit of a buzz. If people have got spare money now, they won't buy a house - but they will look to improve their existing one."

This short-term, fashion-conscious "fun" spending extends beyond the doors of the retail sector. A few doors from the Eldon Square shopping centre, Newcastle's theatres, nightclubs and pubs are thriving.

And across the country, spending on evening classes, car maintenance, cinema tickets and household cleaners were all at record levels last year. Expenditure on gambling and betting grew 16 per cent between the third and fourth quarters, with 58 per cent of the adult population participating in the National Lottery.

Another reason why the pattern of high street spending is throwing up contradictory

messages may be conditions in the retail sector. The confidence of retailers has been knocked by the pressures of adapting to a climate in which consumers are unwilling to pay higher prices or make long-term spending decisions.

Mr David Owen, UK economist at Kleinwort Benson, the brokers, believes that many retailers may be understating the growth in the volume of their sales in recent CBI surveys because they have seen little real price growth. The CBI admits that retailers are now finding it more difficult to predict trading conditions in their surveys than previously.

The problem of adjusting to a low-inflation environment has been compounded by the rapid expansion of the retailing sector in the 1980s, which has left excess capacity in retailing. Too many retailers are chasing too little spending.

In a city like Newcastle, retailers in run-down areas say they have lost business to the large shopping centres that opened in the mid-1980s, particularly the giant MetroCentre shopping area in Gateshead.

Meanwhile Marks and Spencer is spending more than £23m to make the Newcastle store its second biggest in the UK, with the world's largest M&S food hall.

Although the absence of a feelfood factor may be painful for politicians and squeeze some retailers, it has left consumers enjoying some of the most competitive conditions for many years.

NOTICE OF DISTRIBUTION FOR HOLDERS OF

Southeast Banking Corporation

Floating Rate Subordinated Notes

Due 1996
CUSIP No. 841338 AF3

First Trust New York (as successor to Morgan Guaranty Trust Company of New York), as Trustee ("Trustee") under the Indenture dated as of December 1, 1984, with SOUTHEAST BANKING CORPORATION ("Southeast") provides the following to holders of the above-described Notes (the "Notes") which are held outside of the Euroclear or Cede System:

On March 9, 1995, the United States Bankruptcy Court for the Southern District of Florida, in the Chapter 7 proceeding filed by Southeast on September 20, 1991, issued an order (the "Order") authorizing the Second Interim Distribution. All capitalized terms not otherwise defined herein have the respective meanings set forth in the Order.

Pursuant to the Order, the Trustee has entered into certain arrangements providing for the administration and distribution of cash of Southeast to the holders of Notes and coupons appertaining thereto (the "Coupons") upon surrender of the Notes for stamping and redelivery to the holders (the "Distribution").

All holders of the Notes must surrender all such Notes to one of the paying agents indicated on the schedule below (the "Paying Agents") for stamping, stripping of coupons and redelivery and must complete a Letter of Transmittal form available at any Paying Agent's office in order to participate in the Distribution. Delivery will be effected and risk of loss to the surrendered Notes and/or Coupons will pass only upon proper delivery of such Notes and/or Coupons to a Paying Agent, and, in turn, proper redelivery to the holder.

Under the Order, but not before April 20, 1995, each holder of a Note will be entitled to receive a partial payment of principal and pre-bankruptcy interest, upon surrender of each Note with all associated Coupons attached, \$285 in cash for each \$1,000 in principal amount, and \$4.73 in cash representing payment of pre-bankruptcy interest, payable by check drawn in U.S. Dollars to the order of the holder. Payment of principal and interest will be reflected by a stamp placed on the Note by the Paying Agent, and the outstanding principal amount of the Note and interest accrued to September 20, 1991 will thereby be reduced accordingly. All Coupons attached to the Notes will be stripped and cancelled.

The holders of Notes must execute the Letter of Transmittal as a condition to the receipt of cash and redelivery of the Notes contemplated by the Order. In completing the Letter of Transmittal, holders will be required to provide their names, the mailing address of each person and delivery instructions with respect to the cash to be distributed and redelivery of the stamped Notes. Holders will also be required to furnish such other forms or information as the Trustee or Paying Agent may require to comply with applicable United States tax laws.

Upon confirmation of receipt of any and all Notes and/or Coupons, one or more duly completed Letters of Transmittal and all necessary registration and tax information, the Paying Agent will prepare and mail directly to holders the cash payable to them pursuant to the Order and the original Notes stamped to reflect the reduction in principal and interest in accordance with the delivery instructions set forth in the Letter of Transmittal.

The tax consequences of the Distribution are in many cases uncertain and may vary depending on a holder's individual circumstances. Accordingly, holders are urged to consult with their tax advisors about the tax consequences of the Distribution.

Questions concerning the Distributions should be directed to Ward A. Spooner, Vice President, First Trust New York, 100 Wall Street, New York, New York 10005 telephone no. 212-361-2525, facsimile no. 212-809-5459.

NON-U.S. HOLDERS

Non-U.S. holders of Notes must provide a United States Internal Revenue Service Form W-8 or the equivalent certifying the holder's foreign status and signed by the holder under penalties of perjury to the Paying Agent receiving their Notes as a condition to the issuance of cash to such holder pursuant to the Order. A Non-U.S. holder is any corporation, individual, partnership, estate or trust that is, as to the United States, a foreign partnership, a foreign estate or a foreign trust, as the case may be, as those terms are defined in the United States Internal Revenue Code. The payment of cash to a non-U.S. holder will be subject to a 30% withholding tax. A non-resident alien individual may be eligible for an exemption from such withholding tax if he resides in a country that has an income tax treaty with the United States providing such exemption and if he provides a Form 1001 signed under penalties of perjury to the Paying Agent.

U.S. DOMESTIC HOLDERS

U.S. Domestic holders of Notes are holders other than Non-U.S. Holders. U.S. Domestic holders of Notes must provide a Form W-9 or the equivalent certifying the holder's taxpayer identification number (employer identification number or social security number, as appropriate) and signed by the holder under penalties of perjury to the Trustee or Paying Agent as a condition to the issuance of cash to such holder pursuant to the Order.

Paying Agents

Morgan Guaranty Trust Company of New York
P.O. Box 161
60 Victoria Embankment
London EC4Y 0JP

Morgan Guaranty Trust Company of New York
Avenue des Arts 35
1040 Brussels

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P.O. Box 161
60 Victoria Embankment
London EC4Y 0JP

Morgan Guaranty Trust Company of New York
Avenue des Arts 35
1040 Brussels

Dated: March 29, 1995

The Earth is flat

ARTS

Television/Christopher Dunkley

When subtlety goes out of the window

How odd to announce a series of five thrillers which "set out to startle, shock and terrify", adding "there is nothing more terrifying than one's own imagination" and "it is far more intimidating to hint than to portray", and then to give us *Chiller*. Hitchcock showed long ago that the camera can, indeed, produce great fear in the onlooker merely by fixing on the most banal of objects, if you know how to prepare your audience. In *Shadow of a Doubt* he makes a staircase frightening and in *The Lady Vanishes* creates a marvellous apprehension by showing that the nun is wearing high-heeled patent-leather shoes. That is subtlety. Last week's *Chiller*, about a phantom pregnancy, used every cliché in the book - the sinister neighbour, the self-starting music box, the invading cats, and that hackneyed spooky music. It was about as subtle as a dentist's drill.

On Friday March 24 Jonathan Aitken issued an embargoed press release publicising the attack he planned on news broadcasting in general and John Humphrys in particular for Saturday March 25. The opening paragraph said "Solid good news is slow to get a hearing whereas trivial negative publicity is too often overvalued". Paragraph

two said "This weekend's statistics on the economy are a classic case of good news being under-reported". But in fact BBC's *Nine O'Clock News* on the Friday evening ran that "good news" as item 2 (the lead item was the withdrawal of troops from Belfast streets) and ITN's *News At 10* ran it as item 1.

Does this prove that Aitken is wrong? Or that television news desks were influenced, consciously or sub-consciously, by his press release into playing up the "good news" figures? Either way Aitken was on to a winner. Every government sooner or later accuses broadcasters of bias. Shilliness increases as standing in the polls falls. Interviewers on political programmes invariably press government representatives harder than those from the opposition because governments make policies and affect our lives.

Labour was last in power in May 1978 so the Tories have had 16 years of being pressed harder by people such as Jeremy Paxman and John Humphrys and of course they feel it. Among members of the pub-

lic writing about the *Today* programme recently to Radio 4's correspondence column, *Feedback*, 29 out of 30 have protested like Jonathan Aitken about the manner of interviewing. How dare unelected journalists badge elected politicians, they ask. But among those writing directly to the *Today* programme the proportions are reversed. "You nail the slippery little beggars", they say, "you're asking the questions we'd like to ask so pin them down, and more power to your elbow".

Television is being changed in a quite dramatic way by the spread of small video cameras. In series such as *Video Diaries* and the fascinating *Russian Wonderland*, currently on BBC2 (there was a shot from the inside of a tank in Chechnya last week) we are seeing the world in a way that no previous generation has. The cameraman has made possible *The Real Holiday Show*, transmitted on Channel 4 on Wednesdays, which is one of the funniest - albeit most

terrible - things on television. People record their experiences on camcorders and then, quite voluntarily it seems, bring them back and show them to us. Perhaps we see the worst footage from the worst examples, but these look like holidays from hell - or in hell. Watching the physical and mental pain involved, you wonder how people bring themselves to pay for such ghastly experiences. Last week we met an astonishingly bossy wife whose husband could not say a single sentence without correction, and a couple who went to China and had a nasty time at the Great Wall. It provides a wonderful contrast with all those professional jet-away programmes - the unreal holiday shows.

According to the current BARB ratings the week ending March 12 was the first in which Britain's cable and satellite services (all of them put together - Sky, CNN, UK Gold, the lot) achieved an eight per cent share of the viewing figures. They had risen to four per cent by the end of 1991, five per

cent in 1992, six per cent in 1993 and seven per cent in 1994. At this rate they are on target for 50 per cent in 2037.

For decades *Tomorrow's World* was a live programme which investigated the latest inventions. It was loved by children and machinery freaks. Now it has been turned into another "Just fancy that" series. Last week it undertook "the largest mass participation experiment in science history". A man's eyes were shown on screen and viewers were asked to phone in and say whether he was being hostile or friendly, using one set of phone numbers for men and another for women, to see which sex was best at interpreting body language. Slightly more men (36 per cent) than women (33 per cent) gave the "right" answer. Wow! Consternation! Don't tell the women's movement!

However, it was then admitted - apparently without the programme realising the implications - that we had been shown not a picture of an unwittingly photographed person

going through real emotion but an actor attempting to imitate it. Could it be that he was not the world's greatest and that the 65 per cent of us who reckoned he was giving a hostile look were dead right? So much for 34,000 wasted phone calls.

The opening moments of Episode 1 of *Hamish Macbeth* on Sunday were enough to make your heart sink: tartan and bagpipes on the credits, highland cattle stationed camera-right in the middle of the village street, the police Land Rover and the salmon poacher: it seemed that BBC1 in its desperation to match ITV's ratings successes with middlebrow drama series had simply filmed the rural bobby plot from *Heartbeat* and the highland locations from *Dr Finlay*, and hoped for the best. And then things began to go a teeny bit widdershins. The nice young policeman slyly kicked in the headlight of a visitor's Mercedes. Seems the visitor had pinched his girlfriend. A road sign, apparently authentic, said "No more than three sheep abreast".

The thieves breaking into the general store covered their faces not with nylon stockings but thick woolly socks. Unfortunately their jackets had "McCrae And Son" emblazoned across the back. It slowly emerged that BBC1 had taken the precaution of borrowing the tone from *Northern Exposure* and it looks as though it may work. If they can keep it light and witty this could become a very enjoyable bit of Sunday night nonsense; *Whisky Galore* for the 1990s.

The assertion in my Saturday column two weeks ago that Channel 4's season "Whose News?" is devoted exclusively to television was incorrect. Although dominated by television it seems that there are to be programmes about radio and newspapers. If it does nothing else this season has served one admirable function: via *Dispatches* it has made us aware of the "Video News Release", television's version of the printed press release. The difference is that where a newspaper can easily have its own reporter re-write a press release to convey the facts while existing propaganda, television newsrooms have a far harder job re-making a video. Thus the provider of the VNR - charity, political party, whatever - has high chance of its material being used unchanged. Well, well, well.

Opera/David Murray

'Siegfried' survives

We all have our gripes about "concept" opera-productions, but Richard Jones's *Siegfried* - the latest instalment in his version of Wagner's *Ring* for the Royal Opera - confirms what *Das Rheingold* and *Die Walküre* had suggested: that a guiding concept was needed to justify all the little jokes, twists and reversals-of-expectation that trick out this *Ring*, and that there is none. In Nigel Lowery's designs, the Jones production is a random assemblage of small, bright-ish, quite disparate ideas.

Yet *Siegfried* survives the treatment rather well. Some of it is meant to be jokey (there are only a few jokes in *Rheingold*, a dim one-and-a-half in *Walküre*), and in fact there is plenty of tongue-in-cheek in Wagner's handling of all the old fairy-tale elements in the *Siegfried* legend. The Royal Opera has fielded a distinguished cast, and under the anxious, thoughtful direction of Bernard Haitink - rumour has it that he loathes the production - they convey much more of the depth and power of the music than Jones has bothered to match.

Act 1 is easy: young Siegfried is a healthy lout in unfortunate shorts, and his dwarf foster-parent Mime a possessed crazy. I had forgotten how much we have missed Graham Clark's manic glare since he left the ENO and went international; here he wields it brilliantly again, with long, straggly locks, a flirtatious smock and monstrous boots - an off-spring of Nigel Planer and Mrs Doubtfire. The act is capped not by Siegfried's high C, but by Mime's mad, triumphant clog-dance. There is no pathos in Clark's performance, which is a loss; but the physical pyrotechnics are accompanied by bursts of genuinely elegant singing.

Siegfried is Siegfried Jerusalem, experienced and heroically tireless. His unstinted vocal efforts in the sword-forging scene would make more effect in a production which did not reduce the forging to

absurd kitchen-conjury. (The shards of the sword are boiled in a saucepan, then hammered together with another one, with Siegfried flinging in colourful spices which produce pretty clouds.) In Act 2 the surtitles have been doctored - Wurm becomes "monster" instead of "dragon" - to accommodate Carsten Stabell's Fafner, who is no looming dragon but just a Halloween spook with an illuminated pumpkin-head.

Where Act 1 gave us a cartoon cottage (no sense of any surrounding wilderness) with a dominating gas stove and a fallen wardrobe, Act 3 - which in Wagner is all dappled green glades - displays a black void with one near-bare tree. The

A distinguished cast under Haitink's direction conveys the depth of the music

high soprano Woodbird (Linda Kitchen, accurate and warmly expressive, perhaps too much so; I prefer a more "alien" voice in this role) here makes up a trio of carrot-nosed *Sesam Street* birds, prancing and pecking.

Wagner's Act 3, where Siegfried at last finds his Brünnhilde, transpires on bright mountain peaks in infinite space. Jones and Lowery set the betrothal against a smoke-stack, amid high-density buildings and cracked walkways. The abstract stage-geometry is rather pleasing, but quite inapt for the hero's upward struggle. It seemed only right that on the last note of the duet Jerusalem should opt for the lower C, like all prudent Siegfrieds nowadays, though the whole thrust of the music wants a glad cry on the higher one. (I remember Birgit Nilsson sustaining her splendid C long after her tenor's stamina had run out, but also Wolfgang Windgassen covering superbly

with his, when a Brünnhilde quavered and dropped away.)

Anne Evans is the Brünnhilde, a model of good Wagnerian sense and generous vocal warmth. There is practically no steel in her voice, which makes her success the more impressive. Everything she does is considered and felt. One hears that she rejected the first costume offered, her predecessor in Jones's *Walküre* was dressed as jolly hockey-sticks, so you can imagine... but the compromise - flat-heeled slippers and a pinafore; tame, contrived English middle-class - emphasises the strengths she lacks instead of promoting her virtues.

As the god Wotan in his guise as the watchful Wanderer, John Tomlinson is vocally resonant and full of imaginative resource. It would have been nice to have his dramatic outbursts shored up by the staging, which regularly diminishes them. Ekkehard Wlaschka is a blunt, crafty Alberich; Birgitta Svendsén makes more of her catatonic Erda than she managed in *Das Rheingold*.

In this *Ring*, Jones seems to have just three modes of interpretation. First, to reduce Wagner's characters to one-dimensional cartoons (Brünnhilde is really a mother-figure for Siegfried; well yes, but we *knew* that, and so did Wagner, and it is not the whole truth by a long way). Secondly, to contradict basic assumptions - Wagner's, for a start - about settings and moods: the primeval forest, the rarefied peaks. Thirdly, to introduce freehand any arbitrary joke that springs to mind: the empty series of boxes-within-boxes that Mime gives Siegfried here, the proliferating wardrobes, the campy Woodbirds.

Nothing really holds it together, except Wagner's transcendent score. It is a spit in the eye, sometimes amusing, without any central focus. Is this really worth doing at such expense? Is it the best kind of attempt at the *Ring* that we can muster, these days? It would be sad to think that that was true.



John Tomlinson as The Wanderer and Graham Clark as Mime in Richard Jones's new production for Covent Garden

The Oscars go soft on Forrest Gump

Hurricane Gump swept through Los Angeles on Oscar night, uprooting Hawthornes, turning *Pulp Fiction* to pulp, and leaving Hollywood in its usual dazed, razed state at this time of year.

Everyone felt it would happen: most of us just hoped it would not. The Best Picture, Best Director (Robert Zemeckis) and Best Actor (Tom Hanks) awards, plus three runner-up statuettes, all went to the money-spinning folk epic about a simpleton's experience of postwar American history. *Forrest Gump* could now add to its income to become the most lucrative film ever made.

Not all is ruled by box office. Jessica Lange won Best Actress for *Blue Sky*, a film that failed in America and receives a late, restricted British release next week. The two other acting awards also went to good but loss-making movies.

Martin Landau devours the screen as 1940s horror star Bela Lugosi in Tim Burton's *Sleep* and Dianne Wiest does likewise as a prima donna thespian in Woody Allen's *Bullets Over Broadway*. The actors, both considered shoo-ins, duly won the "best supporting" awards.

Britain consoled itself with Best Art Direction (Ken Adam, veteran designer of the James Bond films, winning for *The Madness of King George*), Best Original Song (Elton John and Tim Rice for "Can You Feel The Love Tonight" from *The Lion King*) and best animated film. That was won by Alison Snowden for *Bob's Birthday*, while Scotland took its first Oscar for 34 years, with actor-director Peter Capaldi tying for Best Live Action Short with his film *Prinz Erafra's II's A Wonderful Life*.

The casualties of this 67th Academy Awards' night were

numerous and bloody. The much-hailed *Pulp Fiction* limped away with a mere Best Original Screenplay (Quentin Tarantino and Roger Avary).

Quiz Show and *The Shawshank Redemption* went missing in action. And our own *King George* and *Four Weddings And A Funeral* were more honoured in the breach and the Observer than in any bookmaking optimism from the American press and media.

Continental Europe had a strange night. Krzysztof Kieslowski missed the Best Director prize for which he had

The casualties of the 67th Academy Awards' night were numerous and bloody

been astonishingly shortlisted. (Perhaps Academy members thought *Red* was a sequel to *Reds*.) But Michelangelo Antonioni won an honorary career award and Nikita Mikhailov's impressive Stalin-era tragicomedy *Burnt By The Sun* was a worthy winner in that usual dementia zone, the Best Foreign Film Oscar.

Clint Eastwood collected the annual Irving G. Thalberg Memorial Award for long and worthy service. Two years ago, of course, Eastwood won the Best Picture and Best Director prizes for a film whose merits everyone agreed on: *Unforgotten*.

But it is part of Hollywood's charm that each time you think the Oscars have grown up, they soon return with a rattle and bib, making exuberantly retarded noises.

Nigel Andrews

INTERNATIONAL ARTS GUIDE

AMSTERDAM

GALLERIES
Stedelijk Tel: (020) 5732 911
● Alta Romeo: The Essence of Beauty: exhibition marking the development and design of Alta Romeo cars from the early part of this century to the most recent models; to Apr 2

BERLIN

OPERA/BALLET
Deutsche Oper Tel: (030) 34384-01
● Der Fliegende Holländer: by Wagner. Conducted by Heinrich Hollreiser, production by Gustav Rudolf Sellner; 7.30pm; Apr 2
● Lucia di Lammermoor: by Donizetti. Conducted by Marcello Viotti and produced by Filippo Saragat; 7.30pm; Mar 29 (8pm)
● Martha oder Der Markt zu Frankfurt: by Friedrich von Flotow. Premiere conducted by Sebastian Lang-Lessing and produced by Winfried Bauernfeind; 7pm; Mar 30 (7.30pm)
● The Girl of the Golden West: by Puccini. A new production

conducted by Paolo Olmi and produced by Frank Corsaro. Soloists include Galina Kalinina and George Fortune; 7pm; Mar 31
Staatsoper unter den Linden Tel: (030) 200 4762
● Der Rosenkavalier: by Strauss. Nicolas Brieger directs this new production. The sets are designed by Raimund Bauer and Donald Runnicles conducted; 6.30pm; Mar 29; Apr 4

FRANKFURT

CONCERTS
Alte Oper Tel: (069) 1340 400
● Kirov Orchestra St. Petersburg: Valery Gergiev conducts Stravinsky and Tchaikovsky; 8pm; Mar 30
GALLERIES
Arts Giani Tel: (069) 97 58 37 88
● La Corbusier: famous for his architecture, Le Corbusier also produced oil paintings, watercolours, drawings and graphics. This is an exhibition of 40 such works created between 1928 and 1964; to Mar 31

LONDON

CONCERTS
Barbican Tel: (0171) 638 8891
● Mahler Festival: Michael Tilson Thomas conducts the London Symphony Orchestra in Schumann and Boulez; 7.30pm; Mar 29
● Vienna Symphony Orchestra: with pianist Rudolf Buchbinder. Nikolaus Harnoncourt conducts Haydn, Mozart and Beethoven; 7.30pm; Mar 31
Royal Festival Hall Tel: (0171) 928 8800
● BBC Symphony Orchestra: with mezzo-soprano Brigitte Fassbaender and conductor

Alexander Lazarev plays Wagner, Mahler and Shostakovich; 7.30pm; Apr 1
● Grand Operatic Evening: David Coleman conducts the National Symphony Orchestra, soprano Susan McCulloch and mezzo-soprano Yvonne Howard in a variety of operatic pieces; 7.30pm; Apr 2
● Rotterdam Philharmonic Orchestra: with pianist Andreas Haefliger. Claus Peter Flor conducts Beethoven, Mozart and Shostakovich; 7.30pm; Apr 3
● Royal Philharmonic Orchestra: with pianist Radu Lupu. Marek Janowski conducts Schumann, Beethoven and Brahms; 7.30pm; Mar 30

GALLERIES
Serpentine Tel: (0171) 402 0343
● Take Me (In Your): a unique opportunity to touch, use, test, buy or take away the objects in this exhibition that has been selected by Swiss curator Hans Ulrich Obrist; to May 1
OPERA/BALLET
English National Opera Tel: (0171) 632 8300
● Don Giovanni: a new production of Mozart's opera. House debuts for director Guy Joosten and conductor Markus Stenz; 7pm; Mar 29, 31
● Madame Butterfly: Puccini's opera, originally directed by Graham Vick; 7.30pm; Mar 30; Apr 4
Royal Opera House Tel: (0171) 304 4000
● Salome: by Strauss. A new production directed by Luc Bondy and conducted by Christoph von Dohnányi; 8pm; Mar 29, 31
● Siegfried: by Wagner. A new production directed by Richard Jones and conducted by Bernard

Haitink; 5.30pm; Apr 1 (4pm), 4

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
● Wigglesworth's Debut: with pianist Lars Vogt. Mark Wigglesworth conducts Beethoven's "Piano Concerto No. 2" and Shostakovich's "Symphony No. 7" on his debut performance with the Los Angeles Philharmonic; 8pm; Mar 30, 31; Apr 1, 2 (2.30pm)

NEW YORK

CONCERTS
Avery Fisher Tel: (212) 875 5030
● Helen Heggard and the Westminster Symphonic Choir. Kurt Masur conducts an evening of choral music by Brahms; 8pm; Mar 29, 30, 31; Apr 1
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● La Traviata: by Verdi. Produced by Franco Zeffirelli, conducted by John Fiore; 8pm; Mar 30
● Pelléas et Mélisande: by Debussy. A new production by Jonathan Miller. Conducted by James Levine; 8pm; Apr 1, 4
● The Ghosts of Versailles: by Corigliano. Produced by Colin Graham, conducted by James Levine; 8pm; Apr 3
● Tosca: by Puccini; 8pm; Mar 29; Apr 1 (1.30pm)
New York City Opera Tel: (212) 307 4100
● Harvey Milk: music by Stewart Wallace, libretto by Michael Korie. A new production conducted by Christopher Keene and produced by

Christopher Alden, a story about gay activism, dirty politics, murder and street riots; 8pm; Apr 4
● La Traviata: by Verdi. A new production conducted by Yves Abel and directed by Renata Scotta. Soloists include Janice Hall/Oksana Kroytyska and Stephen Mark Brown/Richard Drews; 8pm; Apr 1 (1.30pm)

PARIS

GALLERIES
Centre Georges Pompidou Tel: (1) 42 77 12 33
● Brassai: works by the French photographer; to Apr 3 (Not Sun)
OPERA/BALLET
Châtelet Tel: (1) 40 28 28 40
● Peter Grimes: by Britten. A new production by Adolf Dressen with Jeffrey Tate conducting the Philharmonia Orchestra; 7.30pm; Mar 30; Apr 2 (5pm), 4
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● The Masked Ball: by Verdi. Conducted by Antonello Allemandi and produced by Nicolas Joël; 7.30pm; Mar 29, 31; Apr 4 (3pm)

VIENNA

CONCERTS
Gesellschaft der Musikfreunde Tel: (1) 505 13 63
● Wiener Symphoniker: Sir Georg Solti conducts Kodály, Bartók, Weber, Berlioz and Beethoven; 3.30pm; Apr 1, 2 (11am)

WASHINGTON

CONCERTS
Kennedy Center Tel: (202) 467 4800
● National Symphony Orchestra: with pianist Barbara Nissman.

Barbara Yahr conducts Kernis, Prokofiev and Rachmaninov; 8.30pm; Mar 30, 31 (1.30pm); Apr 1, 4 (7pm)

● Royal Concertgebouw Orchestra: with pianist Maria Joao Pires. Riccardo Chailly conducts Berg, Beethoven, Stravinsky and Prokofiev; 8.30pm; Mar 31
OPERA/BALLET
Washington Opera Tel: (202) 416 7800
● Carmen: by Bizet. A new production with Denyce Graves in the title role. Ann-Margret Pettersson directs a production by Lennart Mörk. Conductor Cal Stewart Kellogg. In French with English surtitles; 8pm; Mar 30; Apr 1 (7pm), 4

● Tiefland: by Eugen d'Albert. Roman Talerkoj directs a new production by designer Zack Brown. In German with English surtitles; 8pm; Mar 31; Apr 3 (7pm)
THEATRE
Arena Stage, Fichandler Theater Tel: (202) 488 3300
● I am a Man: directed by Donald Douglas. Recreation of the Memphis garbage workers strike of 1968 and the civil rights movement; 8pm; to Apr 9
Horizon's Tel: (703) 519 9123
● Kindertansport: by Diane Samuels. Jane Latham directs a play about the repression of memories in Nazi Germany and the survival of a woman and her relationships; 8pm; to Apr 4

Washington Shakespeare Company Tel: (703) 418 4808
● A Streetcar Named Desire: by Tennessee Williams. Christopher Henry directs; 8pm; to Apr 15

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Ian Davidson



The Great and the Good gather today at a jamboree conference in London to discuss Britain's foreign policy and its place in the world. The Royal Institute for International Affairs, which is sponsoring the occasion, will be widely congratulated for having survived for 75 years. Mr Douglas Hurd, the foreign secretary, will congratulate himself on the importance of Britain and the subtlety and far-sightedness of British foreign policy. In short, it will be a typically British event, oozing self-satisfaction.

A place in the world

Britain must resolve its own ambivalences to establish a global identity

are both profound and plausible, a European identity.

If there is such a thing as a European identity, beyond the cultured consciences of the elites, it will be put to the rudest test in next year's inter-governmental conference: for the defining issue of that conference will be the opening of the Union to eastern Europe.

A pamphlet* from Demos, an independent think-tank, by Mr Perri 6, lecturer in European social policy at Bath University, argues that this enlargement must be a top priority in the long-term interest of the EU.

What is interesting about his argument is that it is ultimately based entirely on the

The conference will be a typically British event, oozing self-satisfaction

notion of European identity. He is sceptical about German-type arguments that membership of the EU is required to stabilise the region and he is doubtful about liberal-market arguments that membership is essential to sustain their market economies. In the last resort, he finds that the most compelling argument for admitting the east Europeans is that they are European and want membership of the EU.

From the west's point of view, however, the case for enlargement is exclusively long-term and strategic. On any short-term economic calculus, Mr Perri 6 believes the balance is likely to be largely negative: there will be costs but few advantages. But from a political point of view, we in

Europe face a historic opportunity to close the centuries-old rift between east and west Europe which has spawned so much conflict in the past, and could do so again in the future.

By and large, Mr Perri 6 seems to me to reach reasonable conclusions, even if some of the details of the argument along the way are questionable. Incomplete or even wrong. He understates the Union's commitment to eastern enlargement, as reinforced at the Corfu and Essen summits. And he offers no evidence for his remarkable predictions that economic and monetary union will take place on easier terms than set out in the Maastricht treaty, or that the EU will launch far-reaching institutional reform.

But the shakiest plank in the structure is the one which relates, but does not connect, the desired end result to its political feasibility. He recognises that eastern enlargement will be resisted and resisted in the poorest western states. But he kisses off too easily the problems of reconciling the sacrifices of these countries, their likely demands for increased compensation, and the tightening vice of the Maastricht budget rules.

In the last resort, he circumvents this problem by putting his faith in the idea of European identity and solidarity.

"The argument about eastward enlargement of the EU is fundamentally about the same things that are at stake in debates within countries about the welfare state, charitable giving, or employment. The rich will only make sacrifices for the poor if they feel that they are both part of the same society..." The making of Europe is, whether we like it or not, also the making of solidarity and the acknowledgement of redistributive claims.

As a statement of principle, this is obviously correct. Without solidarity, and probably some redistribution, the EU will not go far. But we have little reason to assume that the principle of solidarity, or the idea of the European identity, will get an easy time at next year's IGC, even from the other member states, let alone from the British government.

* *Big is Beautiful: Bringing East Central Europe into the European Union*. 6 Demos, 9 Bridewell Place, London EC4V 6AP. £4.95

Violence and terror continue to plague East Timor, the former Portuguese colony occupied by Indonesia in 1975. Indonesian soldiers are accused of cold-bloodedly murdering East Timorese in rural areas.

Some 20 years after Indonesia invaded the territory, anti-Indonesian sentiment in East Timor shows no sign of subsiding and its occupation of the territory remains an international embarrassment for it.

Made up of hundreds of ethnic groupings and as many as 17,000 islands, Indonesia is sensitive to anything which might disturb the fabric of its national unity.

With every attempt Indonesia makes to be taken seriously in the international community - suggestions of mediating between Bosnians and Serbs, or attempts to take on a bigger role in the UN Security Council - Indonesians are invariably confronted with their presence in East Timor.

In November, a demonstration by 23 East Timorese in the US embassy grounds in Jakarta in front of most of the world's press took the gloss off the Asia Pacific Economic Co-operation summit attended by 17 regional leaders, including US president Bill Clinton.

The issue continues to overshadow Indonesia's increasingly important economic status. With 190m people, it is the world's fourth most populated country and among the fastest growing economies in south-east Asia.

Yet the Indonesians are reluctant to change their policy in the territory despite international criticism of their role there. Talks are taking place under United Nations auspices. Exiled members of East Timor's independence movement and East Timorese who favour integration with Indonesia are to meet in Austria in April, an initiative by Mr Boutros Boutros-Ghali, the UN secretary general.

In May, Mr Ali Alatas, Indonesia's foreign minister, will engage in the sixth round of talks with his Portuguese counterpart in New York. Portugal, which abruptly abandoned East Timor in 1975, so leaving the territory to warring factions, still claims sovereignty over the area. Indonesia declared the region its 27th province in 1976 but the UN has never recognised Jakarta's sovereignty over the region.

Indonesian officials point out that East Timor receives more government development funds than any other region.

Persistent thorn in the flesh

Indonesia is paying a high diplomatic price for its occupation of East Timor, says Manuela Saragosa



Jakarta protest: demonstrations by East Timorese have embarrassed the Indonesian government

Certainly, in contrast to when the territory was a Portuguese colony, it now has roads, schools, a university, bridges, health clinics, telecommunications and electricity.

But unemployment in East Timor is, by the Indonesian government's own admission, high. School-leavers experience difficulty in finding jobs. The Batara Indra group, an Indonesian business conglomerate close to the military, holds a virtual monopoly on everything that makes money in East Timor, including coffee trading, sandalwood production and marble mining. Entrepreneurs are rare and private investment into the region is minimal.

Trading in the territory is largely controlled by ethnic Bugis from the Indonesian island of Sulawesi, who make up the majority of immigrants to East Timor.

East Timor has all the characteristics of an occupied territory, according to diplomats who have travelled in the region and who are the only source of independent information on it. They comment that the region is run as a military fiefdom: the Indonesian army has a large presence in East Timor, and has been shocking in its callousness in dealing

with the local population. The UN special rapporteur's recent report on East Timor, following his visit to the territory in July last year, noted that there were "patterns of dealing violently with political dissent and [a] virtual impunity enjoyed by members of the security forces responsible for human rights violations".

Military officials claim their large presence in East Timor is

Indonesia has opposed an independently-observed referendum

needed to facilitate the development and integration of the region. But as one diplomat comments: "The army's behaviour has been such that it has not implemented a policy of integration as continuously as it has applied a policy of occupation."

In one incident, two officers in the Indonesian army, which is predominantly Moslem, were convicted by a military court of desecrating the sacrament in a church in predominantly Catholic East Timor. Actions of this kind breed the hatred

and suspicion with which many East Timorese regard the Indonesians. The ubiquitous presence of plain-clothed intelligence officers has fostered an atmosphere of distrust among the East Timorese.

More recently, Indonesian soldiers shot dead six unarmed civilians in the Liquica regency, a district in East Timor, after opening fire at close range. Jakarta officials appeared genuinely shocked when details of the Liquica incident surfaced last month. Indonesia's National Commission on Human Rights investigated the killings and concluded that there had been a gross violation of human rights. The last time such an investigation was conducted was after the 1981 massacre in Dili, the capital, when, according to UN estimates, between 150 and 270 independence demonstrators were killed by Indonesian soldiers.

The army has admitted there was a "violation of procedures" and the Military Honour Council is expected to punish the soldiers involved. But, as in the Dili massacre, the soldiers will be tried in a military court rather than a civilian one. The UN rapporteur noted that the sentences meted out after

the Dili massacre were "inappropriately light".

Meanwhile, in all of the UN-sponsored meetings with Portuguese officials and anti-integrationists, Indonesia has categorically refused to discuss East Timor's political status. But as one diplomat comments: "Unless there is a political solution to East Timor, there can be no solution."

Indonesia is unhappy about the UN secretary general's initiative to invite individual pro and anti-integrationists to discuss East Timor in Salzburg next month. Mr Irawan Abidin, Indonesia's foreign ministry spokesman, says "the UN has been going a little too far" in interpreting its mandate to "assist in the establishment of an atmosphere conducive to the achievement of a solution to the question of East Timor".

Yet it remains unclear how Indonesia intends to resolve the East Timor question. After the Asia Pacific Economic Co-operation summit, President Suharto ruled out any talk of autonomy or special status for East Timor.

Indonesia has also opposed an independently-observed referendum in the territory, even though it claims that most East Timorese favour integration. Their argument is a referendum was held in 1976, but the UN has not recognised its validity. Continuing violence and fighting in the territory indicate that the Indonesians have failed to win over the East Timorese.

Political analysts and diplomats agree that East Timor is unlikely to be granted independence because Indonesia believes it would threaten national unity. Granting independence to East Timor could encourage separatist movements in other parts of the archipelago.

This may explain why talk of autonomy or special status for East Timor has been squashed by the president. The idea of national unity is one of the principles in the state ideology known as *Pancasila* ("Five Principles") - and challenging *Pancasila* in Indonesia is akin to blasphemy.

Given these constraints and taking into account Indonesia's reluctance to discuss East Timor's political status, the options appear limited. But unless the military's presence is drastically reduced and some degree of political and economic control handed to the East Timorese, the territory promises to remain a painful thorn in Indonesia's domestic and foreign policy.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-673 5938 (please set fax to 'line'). Translation may be available for letters written in the main international languages.

Africa plays the ghost at Gatt's banquet

From Mr Peter Madden.

Sir, It is no surprise that yet another United Nations report shows that the third world will be worse off as a result of the Uruguay Round ("Third world 'worse off' after trade deal", March 27).

Christian Aid's analysis, as well as a study by the London-based Overseas Development Institute, shows that many of the poorest countries will suffer losses from a deal that promised to bring benefits to the whole world.

Without additional support, Africa will be marginalised even further within the world trading system. Yet WTO and World Bank officials continue to deny that there is a problem. The only response of northern donor countries is to propose further cuts in aid.

Richer nations stand to gain from the Gatt deal. Redistributing a tiny portion of these winnings - as additional aid of debt relief - could help poorer countries overcome problems stemming from the deal and take advantage of the opportunities available to them in the new trading system.

Peter Madden, head of policy, Christian Aid, PO Box 100, London SE1 7RT, UK

Fresh bearing on Leeson case

From Ms Ann Treimann.

Sir, Your Singapore reporter may be suffering from a slight case of culture shock. Barings trader Nick Leeson was not drinking in a converted Chinese chop house at Boat Quay. He was drinking in a renovated shophouse.

During the past five years buying and "rehabbing" Peranakan shophouses has been a very successful property investment strategy. Shopkeepers in Kuala Lumpur, Malaysia, are also appreciating quickly.

Ann Treimann, vice-president and head of research, Sun Hung Kai Securities, 24 Raffles Place, 20-04/05 Clifford Centre, Singapore

Electricity trade proposal for Europe leaves UK at a severe disadvantage

From Mr Philip Daubney.

Sir, Lionel Barber ("Move to break EU power deadlock", March 23) is right to highlight concern about proposals to allow the introduction of a Single Buyer Model to Europe's electricity markets. It seems clear that such an obviously monopolistic system as the single buyer model is incompatible with single market principles.

As a recent study by National Economic Research Associates and Prof Leigh Hancher of the University of Rotterdam demonstrates, the single buyer model will allow

member states to discriminate in favour of their own national interests. Countries such as the UK which operate an open electricity market will be disadvantaged. The right of establishment for UK companies in other member states would be very restricted and any gains in electricity trade likely to go to member states operating the single buyer system.

That could hinder progress towards electricity liberalisation for years and isolate the European Union from developments elsewhere in the world. It also seems unlikely that the single buyer model is legally

compatible with the European treaties.

Whatever the regulatory safeguards imposed, UK electricity companies are highly sceptical that the single buyer model can be made reciprocal with competitive models.

It is not in the long-term interests of either the European electricity industry or its customers that a distorted market should develop in this important sector.

Philip Daubney, chief executive, Electricity Association, 30 Millbank, London SW1P 4RD, UK

Treaties give Hungarian minorities cold comfort

From Adam Bisits.

Sir, It is significant that in your balanced coverage of Hungarians in Romania and Slovakia ("East European treaties remain elusive", March 17) no claim is made that the Hungarian minorities in these countries will actually benefit from the bilateral treaties recently promoted by the EU.

The EU's solicitude for the Hungarian minority would be better demonstrated by requiring the Romanian and Slovakian authorities to show how fairly they treat Hungarians, not how fairly they might guarantee to treat them.

Romania's 1947 Treaty of Paris with the allies guaranteed protection of Hungarian and other minority rights, but has never been seriously observed.

Bishop Tokes, the great leader in the events that liberated both Romanians and Hungarians from Ceausescu, has pointed out that cultural, community and regional autonomy can already evolve under present Romanian law but it is circumscribed by the government. That evolution does not involve sensitive border questions and intrusion into domestic law. It is this evolution which should be encouraged

by the EU as it offers immediate benefits to minorities such as the Hungarians as well as to the objective of facilitating Nato and EU enlargement.

Reformers often think the job is done with a new treaty or a "package of legislation". For the EU to be genuinely influential in ex-communist central Europe, it will not take this soft option, and it has the clout not to have to.

Adam Bisits, Level 37, Grosvenor Place, 225 George Street, Sydney NSW 2000 Australia

Space launch business will stay strong after 1977

From Mr Bruce Gerding.

Sir, "Countdown to Success", published on March 20, portrays the space launch business - and space communications - as at a turning point, with much hinging on successful launch of Ariane's Flight 71.

Michael Skapinker and Ralph Atkins quote space communications analyst Stephanie Picchiotto, who believes that the number of launches will drop sharply after 1977 as developing countries choose to meet demand for telephone services by laying fibre optic cable rather than via satellites.

Mr Picchiotto seems to dismiss the generation of personal communications satellite systems in development and planned to operate by 1999. These include the 12-satellite

Odyssey system developed by my company, and the Canadian telecommunications carrier, Teleglobe, Iridium, with 66 satellites; and Globalstar, with 48.

Sponsors of these mobile phone systems are building and operating them in the US. Inmarsat-P plans to compete in the "global mobile" arena.

Satellite-based personal telephone, fax, and paging services can reduce the need for countries such as India and China to invest large amounts in cable and switching systems required for countrywide wireline service. It is cheaper in a remote village to install a wireless satellite-direct telephone with a rooftop antenna than to lay miles of cable.

Satellite service should be competitive in lightly populated areas of developed countries. Where wireless service exists, mobile satellite communications provide a back-up for gaps in coverage sometimes experienced by cellular phones. Global mobile systems will also provide travellers with a single telephone number anywhere.

Growing demand for global telecommunications has given rise to mobile satellite systems. Contrary to Mr Picchiotto's belief, fleets of global mobile satellites destined for orbit will mean strong demand for launch services well beyond 1997.

Bruce Gerding, vice-president and managing director, TRW Odyssey Services, One Space Park, Redondo Beach, California 90278, US

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Wednesday March 29 1995

More capital, less privacy

Capital comes at a price. In the case of German companies, which are turning with increasing enthusiasm to global capital markets to fund their expansion, the price may be that of managing themselves in a manner more suited to international shareholders' interests. However, there is a risk that they will find convenient lodging in a halfway house, sheltered both from the disciplines of the existing German system and from tougher standards of corporate governance.

This week, E. Merck, the family-owned German pharmaceuticals company, announced that it plans to float itself on the stock market. The issue, which aims to raise up to DM2.5bn (£1.1bn) from selling 25 per cent of the company's shares, will be the market's biggest share issue by a privately controlled German business.

The move reflects the growing desire of German companies to tap the equity markets, reducing their traditional dependence on bank loans. At present, only half the top 100 German companies are quoted on the stock exchange.

That is changing, partly because of their expansion plans. A second factor is the looming series of privatisations, with which the government intends to eliminate some of the budget deficit. The DM15bn sale of shares in the Deutsche Telekom planned later this year will free the state-owned telecommunications monopoly to raise further capital for its ambitious investment programme.

However, the increase in the supply of equity is outstripping the demand for equity from German pension funds, given that pensions are still largely state-funded. That mismatch means that much of the stream of new equity must be absorbed by foreign pension funds, particularly those in the UK and the US. The question is whether this trend will instill Anglo-American practices of corporate governance in German boardrooms.

Desirable steps

Some steps in that direction would be desirable. Fans of the German approach to corporate governance argue that the dominance of several large shareholders, particularly the banks, has enabled owners to monitor man-

agement closely and to restrain its follies. But the shortcomings of the model have been increasingly under the spotlight, following the travails of Metallgesellschaft and Klöckner-Humboldt-Deutz. The change is that cosy boardroom ties between management, banks and labour, and the web of cross-holdings between big German companies, have not delivered value to shareholders. Nor do present ownership structures encourage companies to reveal much of their inner workings to small shareholders. Investors argue that the more complex and international that businesses become, the greater the need for shareholders to be informed about progress.

More transparency in company reporting would be a good start. However, there has hardly been a rush to follow Daimler-Benz, which has started reporting its figures according to US accounting standards since it moved to a full listing on the New York Stock Exchange.

Tougher, clearer rules

Greater emphasis on shareholder value might also modify the role of the supervisory boards of non-executives, which monitor the board of management. It might, for example, urge more frequent meetings than the typical four times a year. Tough, clear rules on how information about imminent deals is to be controlled as ownership widens are also needed if international investors are to be comfortable in backing German companies' rights issues and equity-funded takeovers.

But the danger at the moment is that changes to corporate governance will fall short of desirable standards. In tapping the markets, companies may shake off the influence of several large shareholders. However, they may also not become more accountable to small shareholders. If a majority of shares remains in the hands of corporate shareholders and banks, the companies will continue to be shielded from the threat of takeover, and from the incentive to maximise earnings.

The advantages of the present situation would then be lost, but those of a more internationally acceptable model would remain out of reach.

No nonsense from the OFT

One of the distinctive features of the London Stock Exchange's domestic equity market dealing system is that market makers assume an obligation to provide liquidity to investors even in the most turbulent conditions. That commitment, which is incorporated in the rules of the exchange, is generally reckoned to be onerous; and market makers are granted compensating privileges to make it worth their while to risk their capital in the business.

By challenging this central orthodoxy in his latest report, Sir Bryan Carnaby, director general of fair trading, will have struck a chord with a growing band of investors which feels that its needs are being neglected.

Sir Bryan's case is that market makers provide services for investors, in exchange for which they justifiably charge a spread - the difference between the price at which they buy and sell. A collection of obligations and privileges is then superimposed on this basic system in the interests of liquidity. The key obligations require market makers to quote firm two-way prices on the SEAQ price display system, modelled on the NASDAQ exchange in the US, and to avoid quoting more competitive prices elsewhere.

The main privileges include access to inter-dealer brokers, who help them unwind positions with anonymity. Market makers can also borrow stock to fulfil their obligations and enjoy the right to delay disclosure of deals above a certain size. And they alone have the right, as well as the obligation, to display their prices on SEAQ.

Alternative methods

These obligations and privileges, according to the OFT report, introduce distortions to competition which impose costs on non-market makers. If the distortions were a necessary price to pay for serious market failure, then they might be justified. But Sir Bryan is sceptical and argues that firms would still be willing to act as market makers without the privileges. He accepts that abolition might reduce the supply of market making services, but believes that such a change would lead to greater use of alternative methods of trading at lower cost.

It is possible that the OFT

Competitive advantage

A further case against privileges, which is not advanced by the OFT, is that they are increasingly used in support of proprietary trading by the conglomerate groups within which the larger market makers operate. It is hard to see why this particular group should enjoy such a competitive advantage.

The difficulty in judging the appropriate regulatory response is that the need for market makers' privileges is a matter of judgment rather than proof. The London Stock Exchange can also argue that its new Sequences dealing system, to be introduced before the end of next year, will incorporate an order-matching facility, along with a revised version of the present quote-driven system.

Yet this is not a report that the chancellor of the exchequer can simply set on one side without addressing the lack of competition between different trading systems, and the unsatisfied investor demand for a system that allows the display of individual orders. Nor is it easy to escape the impression that the stock exchange has responded to declining profitability among market makers in recent years by granting increased privileges that involve an excessive reduction in transparency.

The sensible course would be to have the Securities and Investments Board (SIB) review the OFT's findings and make recommendations in its own report on the equity market structure, due within the next two months. The SIB should recognise the case for increased transparency and not hesitate to lay down standards which facilitate competition between different trading systems.

Even by the mammoth standards of Japanese financial institutions, the planned marriage of Mitsubishi Bank and Bank of Tokyo will produce a giant of a bank.

The two companies, already respectively the sixth largest and 18th largest banks in the world measured by assets, have combined assets, deposits and capital that dwarf any of their rivals. Together, they will be far ahead of Sumitomo Bank, the nearest Japanese runner-up, larger than the four biggest US banks combined and more than twice the size of any non-Japanese institution.

But if size counted for everything in financial markets, Japan's banks would not still be in the mire into which they have descended in the last few years.

While for nearly 10 years they have contested among themselves the title of largest bank in the world, their profitability, asset quality and all-round financial health have been in steep decline. They have been dragged down by the rapid growth of problem loans linked to the so-called "bubble economy" of the late 1980s, a period of fast-rising prices of property and other assets. The strength of Japan's banks has never been commensurate with their size.

The real significance of the merger lies not in its scale but in its implications for the future direction of the Japanese financial system. It represents the most startling move yet in the process of consolidation of an overpopulated banking sector, creating a bank much stronger than most of its rivals.

It will also accelerate the polarisation of the Japanese banking system, increasing the gap between the best-performing banks and the weakest. This development seems set to exacerbate the sector's difficulties and make life more complicated for the regulators.

Announcing the plans for the merger, Mr Tasuku Takagaki, president of Bank of Tokyo, said the alliance had been motivated by the "globalisation and deregulation of financial markets". In doing so he succinctly enunciated the challenge for the entire Japanese banking sector.

The two banks have a convenient fit. While Mitsubishi is one of the country's leading city banks - commercial banks that pursue activities across the spectrum of retail and wholesale banking - Bank of Tokyo has long been a special case. It was established as the nation's foreign exchange bank in 1880 and, while in the last decade it has broadened its operations to include domestic commercial banking, it still derives more than 70 per cent of its earnings from international business. Indeed, its specialised character and

The significance of the Japanese bank merger lies in its implications for the financial system, says Gerard Baker

Size isn't everything

Japanese banks: a giant is born

The world's top 20 banks by assets

Rank	Bank	Country	Assets (\$bn)
1	Bank of Tokyo / Mitsubishi	Japan	701.2
2	Fuji	Japan	507.2
3	Dai-ichi Kangyo	Japan	506.8
4	Sanjiko	Japan	487.8
5	Sakura	Japan	486.0
6	Sanwa	Japan	483.6
7	Northtrading	Japan	429.2
8	Industrial Bank of Japan	Japan	366.3
9	Crédit Lyonnais	France	338.8
10	Industrial & Commercial Bank of China	China	337.8
11	Deutsche Bank	Germany	322.4
12	Tokai	Japan	311.4
13	HSBC Holdings	UK	305.2
14	Long-Term Credit Bank of Japan	Japan	302.2
15	Crédit Agricole	France	292.9
16	Asahi	Japan	282.0
17	Société Générale	France	260.2
18	ABN-Amro	Netherlands	253.0
19	Banque Nationale de Paris	France	250.4
20	Barclays	UK	245.9

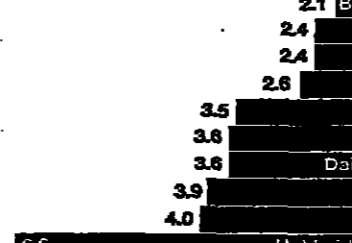
Source: The Banker, July 1994

* Bank now subject to state rescue

Disclosed non-performing loans

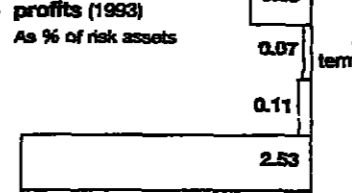
(Sep 30, 1994)

As % of total loans



Net operating profits (1993)

As % of risk assets



Sources: Moody's, companies

expertise in a well-defined field have made it an obvious target for takeovers - as an ideal complement to the predominantly domestic city banks. Mitsubishi, like the other city banks, derives more than 80 per cent of its earnings from domestic banking.

Mitsubishi also runs a domestic securities subsidiary, and recently bought into the trust banking business through its merger with Nippon Trust Bank. Both Mitsubishi and Bank of Tokyo have overseas securities operations. Like few others in the world the new company will merit the sobriquet "full-service bank".

Regulatory problems seem unlikely to obstruct the merger in Japan although the fact that both have large Californian subsidiaries may create anti-trust concerns in the US. The combined profits of the two banks in international markets - at more than 30 per cent of the total for all Japanese city banks - could fall foul of Japanese anti-monopoly laws. But last night ministry of finance officials suggested

the merger had their blessing - an indication the problem would be easily surmounted.

The most surprising element of the merger is that it seems to be the first time in the past few years that two Japanese banks have moved aggressively to strengthen their market position.

There has been a series of takeovers in recent years, prompted by financial liberalisation and the growth of banks' problem loans. But until yesterday, these had all been purely defensive - usually involving the bail-out of one weak institution by another stronger one, and usually at the behest of the finance ministry.

Mitsubishi and Bank of Tokyo by contrast are both members of a small and exclusive club of strong Japanese banks. Their risk-weighted capital ratio - at nearly 10 per cent - is higher than most banks. They are among the most profitable of their peers. And most importantly, they are the least burdened by bad loans.

According to Mr Mark Faulkner,

financial sector analyst at SG Warburg in Tokyo, the alliance of these two strong banks represents the most important development yet in a new phase of Japanese financial history. It comes soon after another highly unusual move: the declaration two months ago by Sumitomo Bank, another of the stronger city banks, that it will declare a loss for the current financial year - the first Japanese bank since the second world war to do so. That loss is the result of an aggressive approach to writing off bad loans.

"These banks [Mitsubishi and Bank of Tokyo] are coming to the end of their bad loan problems, and they are now seeking to position themselves to prepare for a new series of challenges," says Mr Faulkner.

The decision by Sumitomo, taken with yesterday's announcement, looks like a clear declaration of intent by the stronger Japanese banks of a determination to break from the pack. The likelihood, according to Mr David Threadgold, financial sector analyst at BZW in

Tokyo, is that the fastest - led by Tokyo Mitsubishi (as the new bank will probably be called), Sanwa, Sumitomo, Fuji and IBI - will get stronger while most of the rest will be left further behind. "What this merger represents is the creation of a premier league in Japanese banking," he says.

This is happening at a time when the financial sector is entering a new period of uncertainty. Although interest rates may not yet have reached the bottom of the cycle, they are now close to it. As they rise, banks' profits will deteriorate because of the structure of their assets and liabilities. Demand for new loans in the debt-strapped economy is expected to remain sluggish. The increasing tendency of companies to borrow on capital markets instead of from banks will create further problems. And the rolling programme of financial deregulation will open more of the banks' business to outsiders.

Above all, the difficult environment will force banks to address their most important underlying weakness - poor profitability. Even Mitsubishi and Bank of Tokyo are chronically unprofitable in comparison with their international competitors. The operating profits of Japan's city banks, expressed as a proportion of assets, are among the lowest in the world.

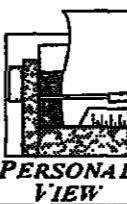
This lack of profitability will take years to address. But banks like Sumitomo and Tokyo Mitsubishi are making a start. "What you will now see is something very different from what has happened before," says Mr J Brian Waterhouse, analyst with James Capel Pacific in Tokyo. "A widening gap between the best and the worst - where the weakest will eventually bite the dust."

The weaker banks may not disappear very easily, however. Until now, the authorities' strategy for dealing with the chronic weakness of most banks has been to rely on stronger banks to take them over.

When the authorities have intervened to rescue a weak bank, most notoriously in the recent case of two small Tokyo credit unions, the move has proved unpopular. There is little popular support for spending public money to bail out private-sector financial institutions.

But the harder some banks work to strengthen their competitiveness, the more difficult it will be for the Ministry of Finance to persuade them to jeopardise their progress by coming to the aid of their weaker brethren. That resistance could scupper the ministry's entire strategy for resolving Japan's bad debt crisis and prolong the uncertainty that has dogged the sector for five years.

Europe must try harder to cut red tape



PERSONAL VIEW

Every few years a new concept in public life becomes fashionable. In the 1980s it was the environment. Today competitiveness may be attracting some of the same aura. Deregulation, an important element of competitiveness, even one claims to favour less and better regulation. You are unlikely to hear any politician publicly defending overregulation. Today we are all deregulators.

At least that is the theory. Sadly, the reality lags way behind the lip-service. For all the UK government's fine words and good intentions, regulation is still the easy option. In spite of Mr John Major's genuine personal commitment, ministers with some honourable exceptions are failing to take the tough decisions needed to match the rhetoric.

Why does this matter so much? The short answer is that every £1,000 spent on filling in forms is a reduction of £1,000 in national prosperity. Hours spent on complying

with unnecessary regulation benefit only competitors in other countries which do not carry the same regulatory overhead.

So what are we in the deregulation taskforce doing to lower burdens on business? The main thing is to encourage a change of culture in Whitehall. We live in a regulatory culture where there is a perception that all problems can be solved and all danger averted by making rules. Costs rarely figure in the equation. The attitude seems to be that "business can pay". But costs arising from regulations imposed on business get passed straight on to the rest of society.

In some cases, society may decide this is a price worth paying. But it should know what that price is. That is why a system of compliance cost assessment is important. For every new regulatory proposal, an estimate should be provided of the cost it might impose on business. I am speaking today at a conference called to discuss how the present system works and how it might be improved. One improvement would be for

ministers to insist that a really rigorous cost assessment is always carried out, together with an assessment of risk. How can ministers claim that a regulation is justified without properly quantified data showing both the extent of the risk it is designed to counter and the cost of protecting against that risk? But we in business need to start taking the assessment of compliance costs seriously, too. We often leave the case for deregulation unargued. It is too easy for legislators and regulators to believe that business is always looking for ways to operate unsafely. A rudimentary understanding of the profit motive shows how absurd this is. The restaurant that poisons its customers and the bus company that endangers its passengers will soon pay

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the penalty in its bottom line. Regulators need to understand that in their high-minded desire to protect the public from danger they are actually working with the grain of private enterprise, not against it.

Often the only input from business is to whinge when a regulation comes into force. This is too late. Business people should be looking at compliance cost assessments early and thoroughly. They should argue about the figures. They should jump up and down and complain before the decision to regulate is taken.

And they should remember that some large and well-established businesses quite like heavy regulation. The cost for big business of complying with new rules tends to be proportionately less than for its smaller competitors. Is big business going to complain if the effect of a new regulation is to make it more expensive for effective competition to emerge?

The need for good risk and compliance cost assessment is even stronger in the European Union, whence the flow of unnecessary and harmful legislation is turning into a

flood. Getting deregulation into the heart of European policymaking is of crucial importance. I co-chaired a group of UK and German businessmen, which was asked by the British and German governments to investigate ways to address this.

With the strong support of our German colleagues, we have recommended the abandonment of the EU directives on working time and part-time work, which regulate the number of hours per week that employees are allowed to work.

All is not gloom. Some progress has been made. In particular, ministers at the Department of Employment and latterly at the Home Office have shown themselves ready to take on vested interests. But until we in Britain create a culture in which regulation is seen as the last and most difficult answer to a problem, performance on deregulation will continue to drag behind the rhetoric.

Francis Maude

The author is chairman of the UK government's deregulation taskforce

OBSERVER

King Kong vs the monkeys

■ What's bigger - the building or the ego? Donald Trump and Leona Helmsley tower over the Manhattan skyline like twin monuments to 1980s greed.

He still holds court in a gilded castle on Fifth Avenue, regaling those who listen with tales of real estate coups, for all the world as though the bust of the early 1990s never was. She remains queen of the New York property world, despite 21 months in prison for tax evasion; but then, among a certain set, it's no crime to point out that only poor people pay taxes.

Fittingly enough, therefore, the two are now battling over another relic of a bygone era, the decaying bulk of the Empire State Building. This being a spat between larger-than-life characters, the row is being conducted in suitably immoderate terms - at least on Trump's side. Having bought half of the building last summer, he is now trying to wrest management control away from the Helmsley-led group which runs it. The Empire State has been allowed to decay into "a second-rate, rodent-infested" dump, he claimed in a recent lawsuit.

Helmsley's acolytes accuse Trump of dirty tactics in trying to snuff the building. Renovation work is well under way, they claim, though the rodents may not all have left yet. The Helmsley group

has management control of the building for the next 80 years. This one could run and run.

Anyone want the movie rights?

Fishing expedition

■ His little jaunt to France clearly did him a power of good. Cuba's president Fidel Castro, now 68, returned home fresh for the fray against public enemy number one - the US.

Castro in a weekend speech to students dived into terrain - health care - sensitive for today's US. He plausibly said he found astonishing "the considerable shortage of psychiatric wards for those (in the US) who are in favour of coercive measures against Cuba".

Maybe Castro is feeling a little bold because he can sniff change: where the US fails to go, Canada is ready to step in. Cuban foreign minister Roberto Robaina has just enjoyed top-level Canadian government hospitality. "The important thing about Canada is that it does not isolate Cuba," he remarked.

All we need is for Cuba to step into the breach between irate Canadian and Spanish fishermen and - bingo! - it'll be Washington that's isolated, not Havana.

Hot pants

■ You've probably thrown out all your scratch 'n' sniff T-shirts by

now, the odours of fresh raspberry overtaken by others less pleasing. So why not get in touch with Katakura Industries in Tokyo, who are bringing to a desperate public scent-impregnated underwear? The gear comes in two flavours - lemon or cypress - with prices ranging from \$2-411, depending on style. Redline conversations will be uplifted, as a result: "Darling, you smell like a lemon!" "I know - give me a squeeze..."

Dogged by crime

■ Dog owners in the Cayman Islands, the British colony in the northern Caribbean, more known for its idyllic beaches and tax advantages, are alarmed. Local police are investigating a sophisticated dog-napping ring, which specialises in pedigree mutts. Police think the stolen dogs are being smuggled out of the country to central America, particularly Honduras, where pedigree dogs fetch high prices and no questions are asked about previous owners. Could be worse: all the pooches might be headed for the far east, where their new owners might love them to death.

Puff and nonsense

■ It's getting to be almost impossible for a fat cat to find a place to puff away on a decent Havana. An Italian court has ruled

that smoking is to be banned in all Italy's public places. The health minister has 30 days to decide whether to convert the ruling into law.

Meanwhile, the governor of the US state of Maryland has ratified one of the country's strictest smoking bans, covering almost all workplaces and even company vehicles occupied by two or more people. All businesses with a liquor license are exempt from the ban.

So watch out for Maryland bosses driving round in big cars licensed to sell alcohol - it'll be the only way they can enjoy their churchill cigars in peace.

Culture divide

■ According to US financial journal Barron's, the Pennant-Rea affair gives the lie to the notion that England and America share a common culture, and are only divided by language. "The difference in fact cuts much deeper," says columnist Alan Abelson. "In England a public official who is caught fooling around with someone not his spouse is fired. Here, he's elected president."

Don't bank on it

■ Given the volatility of the Nikkei recently, maybe the resulting name of the merged Mitsubishi and Tokyo banks should be Mitsu-yo-yo.

Financial Times

100 years ago

Finances of Portugal
Mr Conway Thornton has made, on the whole, a helpful report to the Foreign Office on the finances of Portugal. In Mr Thornton's opinion, the secret of the financial difficulties in which Portugal has involved herself is not the poverty of the country, but the wastefulness of the Administration. The African colonies will in time, he thinks, prove a source of revenue instead of a drain upon the nation's resources as at present. For ourselves, we have little faith in the permanence of the new-found enthusiasm for economy.

50 years ago

H.P. Saxe Ltd.
The 20th annual general meeting was held in Birmingham, Sir Patrick Hannon M.P., chairman of the company, presiding. "We are particularly gratified by the continued popularity of all our productions throughout the fighting services," he said. "If testimony were needed, it would be forthcoming from every front and from every section of war organisation. We have taken measures to secure the continuity of the distribution of our goods in Canada."



Shortlist prepared for Bank of England post

By Robert Peston, Political Editor, in London

An informal shortlist for the Bank of England deputy governorship has been drawn up by the Treasury, which includes Mr Mervyn King, the bank's chief economist and Mrs Rachel Lomax, a World Bank official.

The decision on who should replace Mr Rupert Pennington, the bank deputy governor who resigned last week after disclosures about his private life, is expected to be made in the next three weeks by Mr Kenneth Clarke, the UK Chancellor of the Exchequer.

Another official under consideration for the post is Mr Stephen Robson, a Treasury deputy secretary, who is responsible for the Treasury's relationships with

industry and financial institutions, including the bank.

From the private sector, Mr Peter Burt, managing director of the Bank of Scotland, is a possible candidate.

Mr King is the strongest contender from the bank, because he has impressed Mr Clarke with his role in issuing the bank's inflation report each month, which is a cornerstone of the government's anti-inflation policy.

There is a preference in government for the successful candidate to be an outsider, because the governor, Mr Eddie George, is a lifetime Bank of England employee. Traditionally, either the governor or his deputy has come from outside the bank.

However, Mr King may be regarded as meeting this condition, because he did not join the

bank until 1990. Previously, he was an economics professor at the London School of Economics. Mrs Lomax is also highly regarded by Mr Clarke. However, it is uncertain whether she would wish to be considered for the bank job, having only been appointed to the World Bank last December. Her previous jobs include spells at the Treasury and in the Cabinet Office.

Baroness Hogg, until recently head of the prime minister's policy unit, was considered a possible candidate but she has informed the government she does not wish to be considered. In theory, the appointment is made by the Queen. However, she acts upon the advice of the prime minister, who tends to be guided by the Treasury, to which the Bank of England reports.

Ostrich breeders win VAT reprieve on 'food'

By Jim Kelly, in London

Ostriches are escaping from the clutches of the VAT-man, thanks to a decision to classify ostrich farming as food production.

UK Customs and Excise, not normally noted for burying its head in the sand when it comes to spotting sources of tax, yesterday said it was convinced the flightless bird was a genuine foodstuff.

So from April 1, the ostrich, which sells at £18,000-£20,000 for a breeding pair of two females and a male, will have a zero VAT rating along with its fertilised eggs.

While the ostrich industry celebrated there was, however, some bad news. Ostrich feathers, a favourite prop of amateur drama groups, will retain VAT at the standard rate of 17.5 per cent along with ostrich leather.

Mr Jim Peet, president of the British Domesticated Ostrich Association, said: "This is wonderful news. It's really nice - all red meat - and with lower cholesterol than chicken. It will be a very fashionable meat to eat one day."

The association has 20 members and estimates the UK population of domesticated ostriches at more than 4,000. The first imported chicks came from Zimbabwe in the early 1990s.

The birds can live to the age of 80 and produce on average about 30 chicks a year. The meat sells at between £8 and £12 a pound. According to the National Farmers Union, other European countries are now also taking an interest in ostrich farming for meat.

Mr Peet, who has a flock of 50-60 ostriches near Penrith, Cumbria, added: "They are a bit like farmyard hens but you need to take caution during the laying season as the males get protective. We are the only country in the world which classifies them as a dangerous animal. They are not nearly as bad as bulls or boars."

The association has been keen to have Customs and Excise change the status to foodstuff now that more birds are being slaughtered for their meat as interest in its culinary uses has increased.

Most ostrich flocks are currently kept for breeding as the industry is trying to build up stocks before fully launching into the meat market. However, Mr Bill Scott, who owns The River House restaurant at Skippool, near Blackpool, already serves ostrich at £18 a portion with vegetables. "It's very similar to fillet steak - it's all leg of course," he said. "It's not exotic, but people are a bit wary. But after a while they will get used to it. It ought to be very cheap one day and extremely popular."

THE LEX COLUMN

Japan's mammoth merger

The proposed merger of Mitsubishi Bank and Bank of Tokyo is not a case of two invalids leaning on each other for support. They are probably the strongest of the big Japanese "city" banks, with high capital ratios and low bad debts compared with their peers. Tokyo Mitsubishi will also become the world's biggest bank. But the rationale for the deal has less to do with size than with building a broader product range. Mitsubishi's strong industrial connections and Japanese branch network can be married with BOT's extensive international network. There should be little need for cost-cutting, except in California where both banks have subsidiaries. If the merger is to work financially, it will be by boosting revenues through cross-selling services to each other's customers.

Tokyo Mitsubishi may be a step towards creating Japan's first universal bank. But there is still a long way to go before it remotely challenges the largest US and European banks in the international arena. BOT may be strong in foreign exchange, but neither bank has much of a presence in securities underwriting or trading. Inside Japan, regulation still severely restricts what they can do. One side-effect of the proposed deal is that it may now be harder to engineer rescues for Japan's weaker banks. Faced with a large and strong competitor in the form of Tokyo Mitsubishi, other banks will be less willing to rescue ailing peers. Meanwhile, the row following the recent bail-out of two credit unions has made it harder for the government to ride to the rescue. Japan may soon have to consider letting some of its banks go bust.

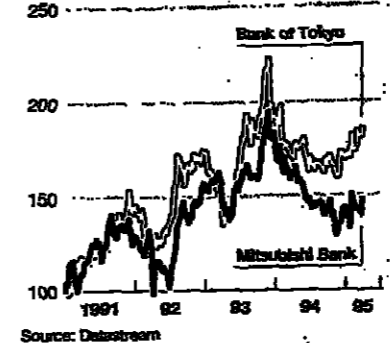
Accounting rules

As the International Accounting Standards Board meets this week in Düsseldorf, it can congratulate itself: its accounting rules are fast gaining ground within continental Europe, particularly Germany. Yesterday Hoechst published its 1994 accounts according to IASB standards, following Bayer's decision to do so last week and an earlier move by Schering. This is part of a welcome trend towards higher standards of financial disclosure. It reflects pressure on German companies from international investors for more information, as well as companies' willingness to open up in the hope of attracting foreign capital. Daimler-Benz started the pro-

FT-SE Eurotrack 200:
1353.5 (-10.2)

Japanese banks

Share prices relative to the Nikkei 225 Index



Source: Datastream

ceeds with its full listing on the New York Stock Exchange, which required it to adjust its accounts to US rules. Even traditionally secretive companies such as Siemens are providing greater detail on the breakdown of profits.

Daimler apart, German companies are reluctant to adopt demanding US rules. Deutsche Telekom, for example, may prefer to adopt IASB standards for its forthcoming privatisation. The snag is that these standards are so far not recognised by many leading stock exchanges, including New York and London. In part because they have a reputation for being less rigorous than US or UK rules, the IASB has recently been working to tighten up its standards with a view to winning round the big exchanges. That is good news for investors. But it also means that, in future, adopting IASB standards will not be a soft option for companies.

P&O

P&O's dogged investment programme during the recession has fortified it against the inevitable impact of the Channel tunnel on its ferries business. Investments in cruising and container shipping, both markets which are now enjoying double-digit volume growth, are now paying off.

Still, P&O Ferries' market share will inevitably suffer as the number of trains travelling through the tunnel increases from one to four an hour. Even with one train an hour, passenger volume in the first two months of 1995 was 4 per cent down on a year before. The overall increase in freight will only partially cushion the blow. After jumping 49 per cent to £114m in

1994, P&O Ferries' operating profits could drop by about £50m this year. But, given Eurotunnel's slow start, the key year is 1996. If the Office of Fair Trading refuses to back down on ferry company mergers, cross-Channel competition may become cut-throat.

P&O's dividend cover remains tight at 1.4 times earnings, but it has been worse. Given the group's strong rental income from properties of more than £100m annually, it should be able to increase dividends in the future without waiting to improve cover substantially, even allowing for the tunnel. However, if ferry profits stabilise at around £60m, the company could suffer when the next economic downturn occurs. Although diversification is out of fashion, the spread of P&O's businesses and its strong asset base at least offer some protection.

Halifax/Leeds

Court approval for the proposed merger between the Halifax and Leeds Permanent building societies should lead to the creation of the UK's fourth largest bank. It will also significantly discredit the deal that Cheltenham & Gloucester's management secured for its takeover by Lloyds Bank. The Halifax merger offers free shares for virtually all lenders and borrowers. The C&G deal, albeit under orders from the courts, denies any reward to its borrowers and short-term "investors". Fortunately for Lloyds, Sunday was the last day for proxy votes, so embittered C&G savers are unlikely to be able to block Friday's vote. But Lloyds could still suffer. Disadvantaged borrowers may take their business elsewhere, together with C&G savers who prefer loyal solely to get Lloyds' cash offer.

Meanwhile, Halifax and Leeds customers should reap substantial rewards. When their merged bank is floated, probably in 1997, it will become a significant FT-SE 100 company owned solely by small shareholders. Since index funds and large institutions will have to buy in, the share price should see an immediate rise.

In addition, the merger sets a blueprint for further consolidation among the building societies, and this should be advantageous to Halifax's shareholders. With a smaller number of companies controlling the mortgage market, an oligopoly could emerge. This could help relieve recent pressure on building societies' profit margins.

Consumer confidence upturn signals hopes of US growth

By Michael Prowse, in Washington

US consumer confidence has rebounded in March, indicating that fears of a sharp deceleration in US growth may be unwarranted.

The Conference Board, a New York business analysis group, said its confidence index rose to 101.0 this month, against 99.4 in February.

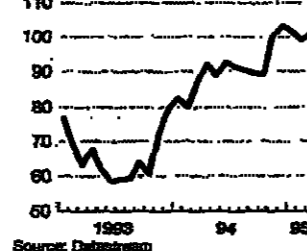
The index is now close to the peak it reached last December and at a level historically associated with vigorous growth.

The board noted a sharp five-point increase in the public's assessment of current economic conditions, suggesting that consumers' willingness to spend may be reviving after a quiet post-Christmas period.

The figures came as Federal Reserve governors and regional presidents met in Washington to discuss monetary strategy. As widely predicted, the Fed did not announce an increase in short-term interest rates, currently 6 per cent, because recent data have seemed to indicate a slowing of growth, especially in interest-sensitive sectors such as cars, housing and consumer durables. The Fed is also thought

US consumer confidence

Index



Source: Datastream

to be encouraged by recent declines in long-term bond yields, which appear to indicate an easing of inflation expectations in financial markets.

Some economists believe the US economy is now settling into a permanently lower real growth rate of about 2.5 per cent a year, compared with 4 per cent last year. On this view further increases in short-term interest rates will not be required because pressures on capacity constraints in labour and product markets are unlikely to intensify.

The rebound in confidence, however, gives tentative support to the opposite view, which is that the deceleration of growth will be mild and short-lived. The

"strong growth" camp expects consumer spending to rebound this spring, forcing the Fed to tighten monetary policy further, perhaps at its next policy meeting in May.

The confidence survey found that more than one in four consumers regarded business conditions as "good" against 17 per cent who described them as "bad". This was one of the most favourable readings in many years. On jobs, opinions were split. About a quarter of respondents said they were plentiful, and about the same number said they were "hard to get". The jobless rate is 5.4 per cent.

Consumers' expectations about economic conditions in coming months eased fractionally in March, but remained consistent with solid economic growth.

The survey, however, revealed sharp regional variations. Confidence on the east and west coasts fell noticeably this month. But these falls were more than offset by gains in the south and mid-west. Confidence also dropped in the Rocky Mountain states but only to 124.9, a very high level by historical standards.

The survey is based on a representative sample of 5,000 households.

UK ready to veto sanctions on Canada

Continued from Page 1

visas or residence permits.

In a further sign of easing tensions, all but one of the Spanish trawlers in the north-west Atlantic have moved away from the contested area known as the "nose" of the Grand Banks, a Canadian fisheries official said yesterday.

None of the vessels has been fishing for 24 hours. The single trawler remaining on the Grand Banks is the Pescamar Uno, whose nets were cut by a Cana-

dian patrol vessel last Sunday.

In New York, in a further move to seize the public relations initiative, Mr Brian Tobin, the Canadian fisheries minister, yesterday displayed for the first time in public a huge net from the Spanish trawler Estal, which was arrested on March 9 in international waters off Newfoundland.

Canada claims that the small mesh has allowed Spanish trawlers to catch a high proportion of fish below reproductive age. The net was shown off on a barge moored in the East River, which

runs alongside the UN, where Mr Tobin is attending a UN conference on fish conservation.

At the barge, Mr Tobin criticised the EU for failing to monitor and enforce measures to conserve depleted fish stocks. This gave Canada no choice but to act unilaterally against Spanish and Portuguese trawlers off Newfoundland's Grand Banks. Ms Emma Bonino, the EU fisheries commissioner, also in New York for the UN fisheries conference, again denounced Canada's tactics.

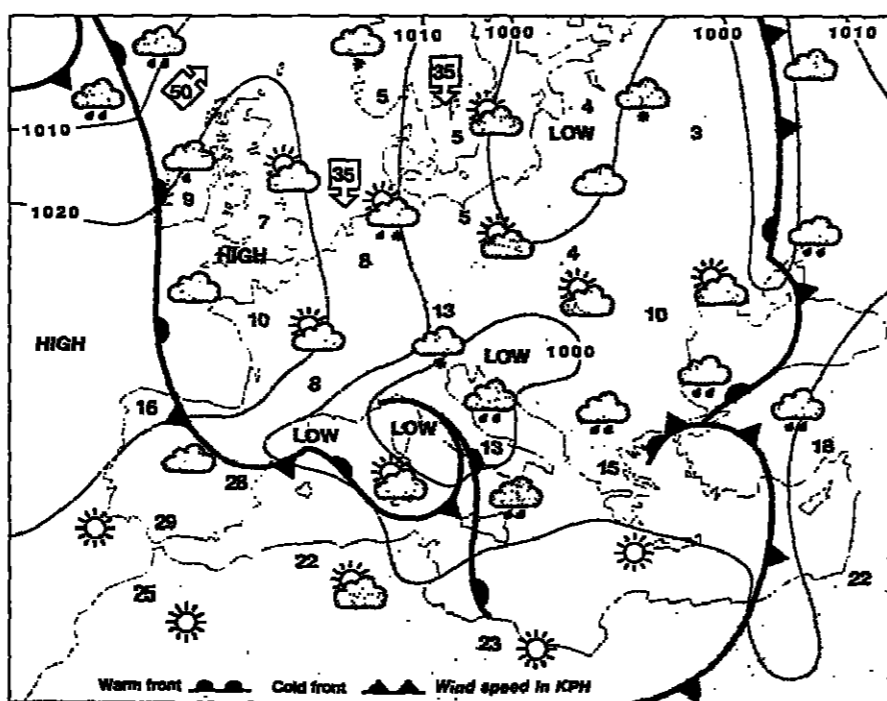
FT WEATHER GUIDE

Europe today

Arctic air will cross Scandinavia to central Europe giving unseasonably cold conditions. The Low Countries and Germany will have numerous wintry showers and there will be heavy snow over the Alps. A ridge of high pressure will promote sunny spells and only an odd shower over the British Isles. Scandinavia will have sunny periods with a few snow showers in the west. An active low in northern Italy will produce cloud over the Mediterranean with heavy rain in places. Greece, Turkey and the Balkans will also have rain. Spain will be sunny with temperatures in the south ranging from 25C to 30C.

Five-day forecast

Northern and western Europe will become warmer with changeable conditions and rain in Scandinavia. The Low Countries will become more settled. Greece, Turkey and the Balkans will be influenced by an active depression, which will cause a lot of rain. Italy will become sunny and warmer. Spain will remain sunny and quite warm.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

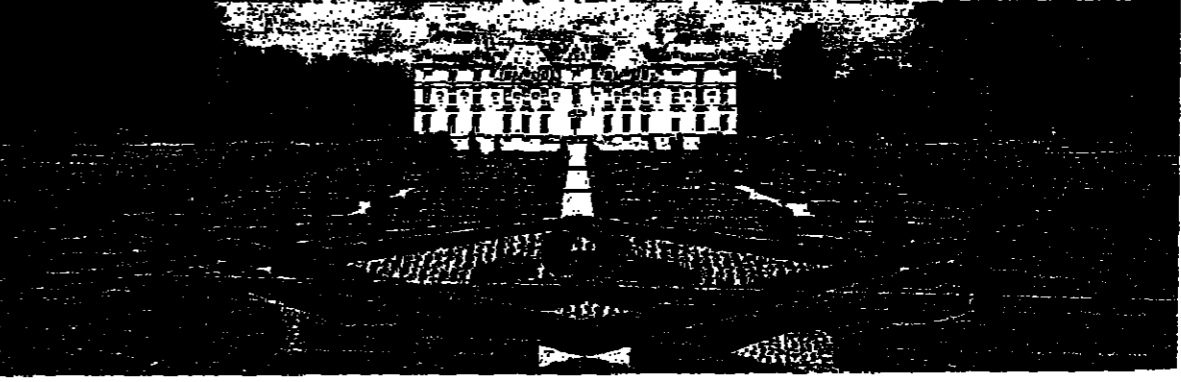
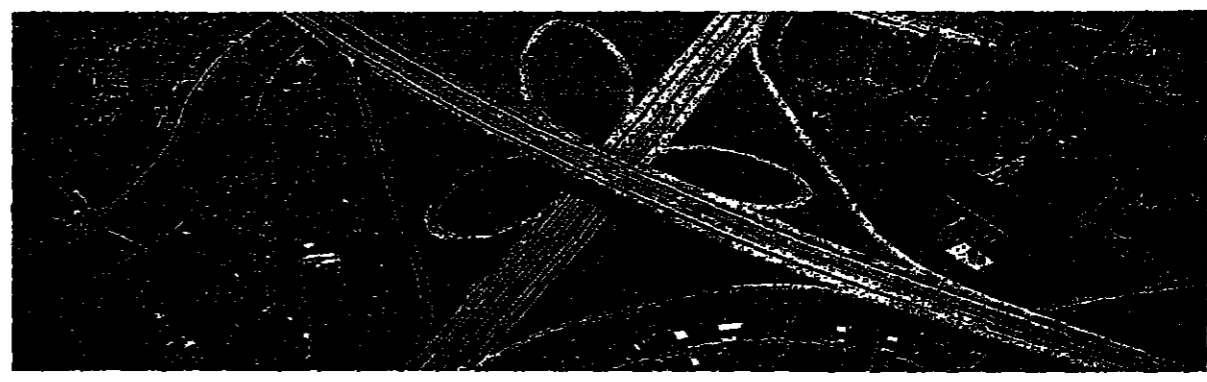
TODAY'S TEMPERATURES

	Maximum	Minimum		Maximum	Minimum		Maximum	Minimum
Abu Dhabi	sun 28	16	Caracas	cloudy 29	7	Faro	sun 22	13
Accra	sun 28	16	Frankfurt	sun 23	7	Geneva	sun 22	13
Algiers	sun 28	16	Madrid	sun 23	7	Manila	sun 22	13
Amsterdam	sun 28	16	Moscow	sun 23	7	Mexico City	sun 22	13
Athens	sun 28	16	Nairobi	sun 23	7	Montreal	sun 22	13
Atlanta	sun 28	16	Paris	sun 23	7	Mumbai	sun 22	13
B. Aires	sun 28	16	Rangoon	sun 23	7	Norfolk	sun 22	13
B.ham	sun 28	16	Rio	sun 23	7	Osaka	sun 22	13
Bangkok	sun 28	16	S. Paulo	sun 23	7	Perth	sun 22	13
Barcelona	sun 28	16	Singapore	sun 23	7	Prague	sun 22	13
			Sydney	sun 23	7			
			Taipei	sun 23	7			
			Tel Aviv	sun 23	7			
			Tokyo	sun 23	7			
			Toronto	sun 23	7			
			Vancouver	sun 23	7			
			Venice	sun 23	7			
			Vienna	sun 23	7			
			Warsaw	sun 23	7			
			Washington	sun 23	7			
			Wellington	sun 23	7			
			Winnipeg	sun 23	7			
			Zurich	sun 23	7			

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INTERNATIONAL COMPANIES AND FINANCE

Leading Italian banks disappoint as sell-offs loom

By Andrew Hill
in Milan

Italy's biggest banks yesterday produced further evidence of difficulties suffered in 1994, when they faced turbulent financial markets.

The bad news was well heralded last year, but it comes as the banks are preparing to play a crucial role in privatisation and structural reform of the Italian economy.

Credito Italiano (Credito), the former state-owned bank which was privatised at the end of 1993, yesterday announced a fall in net consolidated profit to L64.8bn (\$38m), less than a quarter of the L275bn profit reported in 1993, when trading conditions were exceptionally good.

The bank's parent company showed slightly better results of L61.9bn, against a net profit of L218.6bn in 1993, but was still forced to cut its recommended dividend by more than half to L35 per ordinary share, and L50 per savings share. The dividends for 1993 - the first to be paid after privatisation - were L85 and L100, although Credito pointed out that since then the number of shares in issue has increased following last year's rights issue.

The results do not show the impact of Credito's successful bid for Credito Romagnolo of Bologna, concluded this year.

Most banks have pointed to increased deposits as evidence of a positive trend, in spite of last year's results, but their net profits are still sharply down.

Banca di Roma, more than 30 per cent of which is directly or indirectly controlled by IRI, the Italian state holding company, yesterday announced that its net profit had fallen to L42bn for 1994, against L110bn in 1993. Unlike last year, it proposed using the entire profit to reinforce reserves.

On Monday, Banca Commerciale Italiana (BCI), privatised shortly after Credito unveiled flat profits for 1994 and a cut in its dividend. Cariplo, the Milan savings bank which is planning to seek a stock exchange listing this year, also reported a lower net profit of L134bn for 1994, compared with L320bn in 1993.

Industrialists, the government and Bank of Italy have recently called on banks to cut their ties with public authorities, which still control 80 per cent of the Italian banking sector, in the hope of speeding liberalisation of the sector.

Avesta Sheffield swings back to the black

By Hugh Carnegie
in Stockholm

The 1992 merger between the Swedish company Avesta and British Steel's stainless steel operations yesterday produced its clearest benefits to date, when Avesta Sheffield reported a pre-tax profit of SKr1.56bn (\$214m) in 1994 after a loss of SKr286m in 1993.

Although the 1994 result was flattered slightly by comparison with 1993, when the group carried SKr203m in restructuring charges, it was ahead of most expectations.

Mr Per Molin, Avesta Sheffield chief executive, said it amounted to a firm endorsement of the 1992 merger.

British Steel last year became the dominant shareholder in the group, taking its holding up to 49.9 per cent after a Swedish partner sold out. Along with other shareholders, it will benefit from the first Avesta Sheffield dividend, set at SKr1.60 a share.

The profit was built on sales of SKr16.8bn, up 19 per cent from the 1993 figure of SKr14.2bn. The operating result swung to a profit of SKr1.7bn from a loss in 1993 of SKr1.7m.

Avesta said demand had risen sharply in Europe, its main market along with North America. Deliveries by stainless steel producers in Europe had risen 27 per cent over 1993 for cold rolled products.

Mr Molin said the swift restructuring that followed the merger - which focused on establishing single sites for its different product specialisations in Sweden and the UK - allowed Avesta Sheffield to maximise the benefits of the rise in demand.

"The average price level in 1994 over 1993 was only 2 per cent higher so the result development has its basis in a better cost structure created by the merger and because what we have done since the merger allowed us to raise our volumes," he said.

He added that the group had doubled its 1992 prediction of gaining \$40m (\$64m) in synergy benefits.

Hoechst soars 80% despite US setback

By Jenny Luesby in Frankfurt

Hoechst, the German chemicals group, yesterday reported a five-fold increase in European profits, which more than offset a poor year in North America.

The group's pre-tax profit rose 80 per cent worldwide, to DM2.21bn (\$1.57bn), on a sales increase of 7.8 per cent, to DM49.64bn.

However, at the operating level, a 57 per cent increase in profits, to DM2.32bn, was based on a DM1.48bn jump in Europe, against a DM664m decline in

profits from the company's North and South American operations.

The improved European performance was driven by a more than three-fold rise in profit in the chemicals business and a reversal of the considerable losses made in the polymer business in 1993.

There was also a 33 per cent increase in profits within the healthcare business.

However, in the US, the company reported a DM100m loss on its pharmaceuticals operation. It also made a DM560m provision at Hoechst Celanese,

much of which was against a liability claim for faulty plumbing systems installed in US homes.

Hoechst also incurred DM541m in restructuring costs last year.

Although these were partially offset by a release of a DM140m provision previously made against a dyeing operation in Japan, and DM200m from the sale of the Roussel Uclaf building in Paris.

This combination of provision created an apparent decline in earnings in the fourth quarter. However, at the

operating level, income was DM300m higher in the final quarter than in the previous three months.

Mr Juergen Dormann, chairman, said this trend had continued into 1995, with sales expected to be up 8 per cent in the first quarter, to DM13bn.

Continued strong volume growth was also being supported by better prices, although currency movements reduced sales by DM500m in the first two months and the effect was worse still in March.

Nonetheless, the company could expect earnings growth of at least 15 per cent this year.

On the progress of the acquisition of Marion Merrell Dow, Mr Dormann said due diligence was complete, and the company was in negotiations with anti-trust authorities in the US and Europe.

The company had made considerable savings by purchasing dollars at a favourable exchange rate, ahead of the transfer of funds.

On completion, it intended to write off goodwill on the acquisition over 20 years, resulting in a reduction of net income of DM500m this year.

Strength of Swiss franc hits results at Ciba

By Daniel Green

Ciba, the Swiss pharmaceuticals and chemicals company, will cut more jobs in Switzerland as a result of the rising Swiss franc, said Mr Alex Krauer, chief executive yesterday.

At the operating level, Ciba's profits rose 40 per cent in local currency terms but only 15 per cent in Swiss francs to SFr2.7bn (\$2.44bn).

Net profits rose 36 per cent in local currency terms but only 8 per cent to SFr1.9bn in Ciba's accounts.

The currency's strength led to a 3 per cent fall in sales to SFr22bn last year. In local currency terms, sales rose 4 per cent.

Earnings a share rose 7 per cent to SFr6.1 and the dividend was raised SFr2 to SFr7.

The currency effect, described by Mr Krauer as "the most important problem", masked the company's strong local currency performance, especially in its agriculture

and industry divisions.

Sales in these divisions last year grew faster than pharmaceuticals. This justified the company's decision to buck the industry trend of selling non-healthcare businesses, said Mr Krauer.

Nor would Ciba buy the chemicals operations of Swiss rival Sandoz, which were put up for sale last week.

Ciba's agriculture sales rose 6 per cent to SFr4.8bn in constant currency terms and industrial sales rose 6 per cent to SFr3.5bn.

Within the industrial division, the additives groups put in the best performance with sales up 13 per cent to SFr2.2bn.

The healthcare division's sales grew just 1 per cent to SFr7.7bn. The company was hit by the expiry of patent protection in the US on its heart drug Lopresol, where sales fell 40 per cent.

Sales and profits may take a further hit this year if there are new competitors to the

company's anti-inflammatory drug Voltaren, which has just lost its patent protection.

In its efforts to lift drugs sales, Ciba has integrated the activities of Geneva, the US company that makes unbranded generic versions of drugs.

Unlike healthcare and industrial chemicals, the other two pillars of Ciba's international business, the agrochemicals division cannot hope for substantial future growth on the back of increases in demand, writes James Harding.

The world market for crop protection products is expected to grow at only 1 per cent per year until the end of the century, according to Mr Wolfgang Samu, head of the plant protection division, and cost cutting will have to drive the modest profits growth expected in Ciba's agriculture branch until 1998.

Ciba agriculture's downturn forecast is likely to nudge other agrochemical businesses that hoped they were out of a prolonged period of cost-cutting following the first substantial growth in several years in the global agrochemicals market in 1994.

However, Ciba argues that rationalisation is a necessity in the face of price pressure from farmers and with demand growing slowly.

Although new products in the seeds and animal health areas drove currency adjusted sales figures up 13 per cent last year, the crop protection division, which counts for 85 per cent of Ciba's agriculture business, saw only a 4 per cent rise in currency adjusted turnover.

European regional and sectoral product teams, emulating the co-ordination in parts of Ciba's southern European pharmaceuticals business, are planning to target small grain cereal pesticides buyers and vegetable protection products, Mr Samu said.

The streamlining would accelerate closure of Ciba sites with duplicate functions. Ciba expects to cut the number of European warehouses from 40 to 15 and the number of formulation plants from eight to four in the next three years.

As well as greater economies of scale in Europe, Ciba agriculture is trying to improve performance in Asia.

The launch of Ciba-Geneva's generic version of Lopresol meant that Ciba's market share fell by less than 40 per cent.

It also cut its US workforce by about 1,500, or 30 per cent. And the company's next gen-

Aramco poised to acquire 50% of Greek oil refiner

By Kerin Hope in Athens

Vardinoyannis group of Greece is close to agreement on the sale of 50 per cent of Motor-Oil Hellas, its oil refining company, to Aramco, the Saudi Arabian state oil company.

If the deal goes through next month as expected, it would be Aramco's first acquisition in Europe and the largest single foreign investment in Greece

for more than 20 years.

Since negotiations between the Vardinoyannis family and Aramco started last November, the projected deal has been expanded to include the sale of 50 per cent of Avinoli, another Vardinoyannis company which controls a chain of more than 800 petrol stations that are supplied by Motor-Oil.

The Avinoli sale would give Aramco both a refining and

marketing outlet in Europe, in line with the trend among state oil companies to develop downstream networks in their main crude markets. It would also offer the potential to expand into the Balkans, where the Vardinoyannis group sells oil products.

Motor-Oil officials this week denied a report that Aramco was poised to acquire 100 per cent of the company.

However, the proposed terms of sale would give Aramco management control of both companies.

Final details of the price for 50 per cent stakes in each company have still to be worked out. An Athens-based analyst said Motor-Oil was valued at about \$450m, while Avinoli would be worth \$50m.

Motor-Oil owns Greece's largest private refinery with

capacity of 4.5m tonnes yearly. The refinery, near Corinth in southern Greece, was modernised in the late 1980s and exports oil products through a trading subsidiary.

Motor-Oil posted profits of Dr6bn (\$3.7m) in 1993 (the last year for which figures are available) on turnover of Dr180.2bn. Avinoli reported pre-tax profits of Dr62m for 1993 on turnover of Dr67.9bn.

This announcement appears as a matter of record only



Thai Fuji Finance & Securities Co. Ltd.

US\$70,000,000

Transferable Loan Certificate Facility

Arrangers / Lead Managers

Arab Banking Corporation (B.S.C.), Singapore Branch
The Arab Investment Company S.A.A. (TAIC)
The Bank of Nova Scotia Asia Limited
KEXIM Asia Limited
L.F.C. Far East Ltd / London Forfaiting Company PLC
Shinhan Finance Limited / Shinhan Bank
Sumitomo Trust Merchant Bank (Singapore) Ltd.
WestLB Asia Pacific Limited

Co-Lead Managers

Bank of Bahrain and Kuwait B.S.C.
The Bank of Nova Scotia, Bangkok International Banking Facility
Donghua Bank
Kookmin Bank
Korea International Merchant Bank
Kyongnam Bank
Saehan Merchant Banking Corporation, Seoul Korea

Senior Managers

Kangwon Bank, Ltd.
Banque Nationale de Paris, BIBF
The CNB Leasing (Hong Kong) Limited
Crédit Industriel et Commercial de Paris
Daedong Bank
DongNam Bank

Managers

DCB Bank (L) Ltd.
The Export-Import Bank of the Republic of China
Hanil Leasing & Finance (H.K.) Ltd.
IBJ Leasing (Hong Kong) Limited
ORIX Asia Limited
Banca di Roma-Hong Kong Branch
Century Leasing (H.K.) Limited
Korea-Japan Finance Company Limited

Agent

London Forfaiting Asia Limited

March 1995

BANQUE NATIONALE DE PARIS S.A.

A Public Limited Company
Capital: F4,751,153,976
Registered Office: 16 Boulevard des Capucines, 75008 Paris
Paris Trade and Companies register No. 8 662 042 449

Notice is hereby given to the owners of bonds of the issues listed below issued by Banque Nationale de Paris of a bondholders' meeting in one of the rooms in our building at 8 rue de Solferino, 75018 Paris.

On April 14, 1995, for the following issues:

At 8:00 a.m. on the note AUD 9% 1992/2002
At 8:15 a.m. on the note USD 6% 1992/1997
At 8:30 a.m. on the note CAD 7% 1993/2003
At 8:45 a.m. on the note CAD 8.5% 1994/1997
At 9:00 a.m. on the note NZD 12% 1991/1995
At 9:15 a.m. on the note CAD 7.5% 1993/1999
At 9:30 a.m. on the note CAD 6% 1993/1997
At 9:45 a.m. on the note CAD 8% 1992/1995
At 10:00 a.m. on the note CAD 8% 1992/2002
At 10:15 a.m. on the note CAD 9% 1993/2003
At 10:30 a.m. on the note CAD 8% 1992/1997
At 10:45 a.m. on the note USD FLR 1992/2002
At 11:00 a.m. on the note USD FLR 1993/2003
At 11:15 a.m. on the note AUD 9.5% 1991/1996
At 11:30 a.m. on the note AUD 10.5% 1992/1999
At 11:45 a.m. on the note GBP 6.25% 1994/1999
At 12:00 p.m. on the note CAD 9% 1991/1997
At 14:00 p.m. on the note CAD 9% 1994/1999
At 14:15 p.m. on the note USD FLR 1986
At 14:30 p.m. on the note XEU FLR 1986/1996

to take action on the following common agenda:

- Reading of the report of the board of directors on the partial conveyances by BNP to its two subsidiaries, Société Etampoise de Participations and Société Fartoise de Participations, of assets of its business divisions concerning its operations in Martinique and Guadeloupe.

- Approval of these conveyances.

- Delegation of authority.

Only registered bondholders of record five days before the meeting, and only bearer bondholders who supply proof to the domicile institutions, at least five days before the meeting, of the deposit of their bonds with a bank, credit institution or stock brokerage firm, are entitled to attend the meeting in person or by proxy.

The Board of Directors

U.S.\$200,000,000

Floating Rate Subordinated Loan

Participation Certificates due 2000
Issued by Yamaguchi International (Deutschland) GmbH
for the purpose of funding and maintaining a subordinated loan to
The Hokkaido Tokai Bank Limited
In accordance with the provisions of the Loan Agreement, notice is hereby given that for the three month interest period from March 29, 1995 to June 29, 1995 the Loan Participation Certificates will carry an Interest Rate of 6.55% p.a. and the Coupon Amount per U.S.\$250,000 nominal of the Notes will be U.S.\$4,184.72.

March 29, 1995, London

By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

U.S.\$200,000,000

BATIF

Guaranteed Floating Rate
Notes due 2000 with
Guaranteed Floor Warrants
For the period from March 29, 1995 to September 29, 1995 the Notes will carry an interest rate of 6.5% per annum with an interest amount of U.S.\$100,000,000.

The interest amount per Floor Warrant tranche is U.S.\$7.25

The interest amount per Floor Warrant tranche is U.S.\$9.50.

The relevant interest payment date will be September 29, 1995.

Agents Banks:

BANQUE PARIBAS

(Paris)

BANQUE NATIONALE DE PARIS

USD 500,000,000

Unsecured Subordinated Floating Rate Notes

Notice is hereby given that the rate of interest for the period from March 29, 1995 to September 29, 1995 has been fixed at 6.5125 per cent per annum. The coupon amount due for this period is USD 33,326.90 per USD 100,000 denomination and USD \$3,326.90 per USD 100,000 denomination and is payable on the interest payment date September 29, 1995.

The Relevant Agent

Banque Nationale de Paris

(Luxembourg) S.A.

AVIS

AVIS EUROPE LIMITED

(the "Issuer")

(a Company incorporated with limited liability under the laws of England, formerly known as Avis Europe plc)

NOTICE

to the holders of the

£75,000,000

11% per cent. Bonds due 1996

of the Issuer

(the "Bondholders" and the "Bonds" respectively)

NOTICE IS HEREBY GIVEN that, at the offices of Baker & McKenzie at 10 New Bridge Street, London EC4V 6JA on Thursday 4th May 1995 at 11am (London time) Avis Europe Limited ("Avis") and the Issuer will make a presentation to the Bondholders with regard to the performance of Avis, the Issuer and their respective subsidiaries during the financial year ended 29th February 1995 in accordance with Clause 4 of the Second Supplemental Trust Deed dated 7th August 1992.

A Bondholder wishing to attend the presentation in person must produce at that time either his or her Bond(s) or a valid attendance certificate or valid attendance certificate issued by a Paying Agent relative to the Bond(s) of which he or she is the holder. In order to obtain an attendance certificate, a Bondholder should contact a Paying Agent.

ADDITIONAL INFORMATION

PRINCIPAL PAYING AGENT

The Royal Bank of Canada

71 Queen Victoria Street

London EC4V 4DE

Telephone: 0171 494 1188

OTHER PAYING AGENTS

Internationale Nederlanden Bank

(Belgium) S.A./N.V.

Rue de Logne 1

14-1881 Brussels

Telephone: 0032 2217 8400

This notice is given by:

AVIS EUROPE LIMITED

Ann House

Park Road

Bracknell

Berkshire RG12 2EW

Dated 29th March 1995

Kredietbank, S.A.

Luxembourg

43 Bank and Royal

L-2955 Luxembourg

Telephone: 00352 47 27

By Order of the Board

J.A. Nishanov

Secretary

NOTICE OF PAYMENT

to Holders of

OLYMPIA & YORK FIRST CANADIAN PLACE LIMITED

11% Series 3 Secured Bonds due 1993

NOTICE is hereby given that on March 31, 1995 a partial payment of Cdn.\$25,000 for each Cdn.\$1,000,000 principal amount of Olympia & York First Canadian Place Limited 11% Series 3 Secured Bonds due 1993 (the "Series 3 Bonds") will be available to holders from The Royal Trust Company, trustee under the Trust Deed dated as of September 19, 1988 pursuant to which the Series 3 Bonds were issued. Holders may obtain partial payment on this date by presenting the original Series 3 Bond certificate to any of the following paying agents:

Bank of Montreal

London Office

11 Wallbrook, 2nd Floor

London EC4A 3DF

England

Banque Internationale à

Luxembourg, S.A.

2 Boulevard Royal

Luxembourg

Credit Suisse

8 Bankplatz

8021 Zurich

Switzerland

Kredietbank N.V.

Rue d'Arenberg

1000 Brussels

THE JAPANESE BANKING MERGER

Complementary partners in search of a logical industrial fit

At first sight, the planned merger between Mitsubishi Bank, Japan's sixth largest, and Bank of Tokyo, its 10th largest, makes a relatively logical industrial fit.

Important details, such as financial terms and the management line-up of the new body, provisionally named Tokyo Mitsubishi Bank, have yet to be settled. But thus far, the suitors are more or less complementary.

A Japanese central bank official last night greeted the merger as healthy. It was liable to bring economies of scale and speed up the reduction of bad debts which constitute a serious burden to Japanese banking, he said.

Both banks have strong balance sheets, by the shaky standards of Japan's banking industry, and are both well known for their conservative management styles and lending

One is stronger at home, the other abroad, say William Dawkins and Emiko Terazono

Mitsubishi is strong domestically and weak internationally, while Bank of Tokyo is weak domestically and strong abroad. "BOT has what we don't," said Mr Tsuneo Wakai, president of Mitsubishi Bank, yesterday. His counterpart at BOT, Mr Tasuku Takagaki, chimed in: "We felt there was a limit to our domestic expansion and when we looked around we found Mitsubishi."

Mitsubishi is the dominant partner, by virtue of its sheer size and influence as the financial muscle of the Mitsubishi group, Japan's largest corporate family, a powerful club which the BOT would dearly love to join. Yet it is less dominant than have been the lead partners in recent years.

Mitsubishi's parent company assets, ¥49,950bn (\$599bn) at September 1994, are more than double BOT's ¥22,840bn. So are the larger BOT's bad loans, at ¥565.3bn at the same date, against BOT's ¥230.4bn. However, those bad debts represent only 1.6 per cent of Mitsubishi's total loans, as against 2.1 per cent at the BOT. They are well below the 3.3 per cent average for Japan's 11 top commercial banks, a consequence of their conservatism. The prospective partners' bad debts have only slightly different origins; Mitsubishi's are a legacy of Japan's recession and the decline in the value of domestic property offered as collateral. BOT's bad debts are mostly held by troubled housing loan corporations, similar to UK building societies, but also a

hang-over from the early 1980s Latin American debt crisis. Geographically, Mitsubishi's 351 domestic and 69 overseas branches and subsidiaries roughly mirror BOT's 366 overseas offices and 37 Japanese outlets.

BOT is represented in 46 countries in Latin America, North America, Europe and Asia, a legacy from its early days as Japan's only foreign exchange bank, while Mitsubishi Bank is well represented in the upper echelons of Japanese industry, and in 27 countries in North America and increasingly in Asia.

They overlap in California, where they both own commercial banks (BOT with Union Bank and Mitsubishi with Bank of California), and

Asia, where they both have branches in Hong Kong and Seoul.

There would, accordingly, be scope for staff reductions in both regions. BOT's Mr Takagaki said the pair would need to talk to US banking regulators about the future of their Californian operations.

Equally, the BOT could provide services in regions where its partner is not active, to industrial members of the Mitsubishi *keiretsu*, like Mitsubishi Motors or Mitsubishi Corporation, the trading company. Latin America is an obvious possibility.

The types of business also interlock. BOT's expertise has always been in foreign exchange. It has a monopoly in managing the finance ministry's foreign currency holdings and handles the lion's share of

the funding linked to Japan's overseas development aid.

BOT is among the top three banks used by Japan's leading trading companies, is often used as a second bank by Mitsubishi Corporation and yet lacks Mitsubishi's solid Japanese corporate client base.

Mitsubishi Bank, by contrast, is one of the strongest of Japan's commercial banks, with a list of blue chip industrial customers, including members of its own *keiretsu*.

Its attractiveness as a partner may have also been improved by its decision last October to absorb an affiliate with a heavy property-related problems, Nippon Trust Bank, putting a lid on the errant unit's ability to run up bad loans.

Mitsubishi Bank has a domestic securities subsidiary, while BOT

does not. They both have trust banking units, but these specialise in different areas: custody accounts at BOT and pension fund management at Mitsubishi's Nippon Trust.

One more area of common interest lies in funding. BOT is allowed, through an oddity in the complex history of Japanese banking regulation, to issue debentures, a stable source of fixed-rate long-term funds which accounts for an estimated 20 per cent of the bank's balance sheet.

Mitsubishi Bank is denied this privilege, but could well make use of it to resolve a problem faced by most city banks: that is, their lending tends, inconveniently, to be at longer maturities than their own borrowing.

Mitsubishi's Mr Wakai understands that the new bank will be allowed to issue debentures, at least for a while.

How the banks balance out

Financial data	Total assets (¥bn)		Loans and bills disc. (¥bn)		Shareholders' equity (¥bn)		Equity per share (¥)	
	Sep 1994	Mar 94	Sep 1994	Mar 94	Sep 1994	Mar 94	Sep 1994	Mar 94
Mitsubishi Bank	49,950.010	49,924.836	30,798.467	31,950.847	1,771.205	1,831.682	615.0	636.1
Bank of Tokyo	22,836.393	26,045.753	10,950.613	13,554.332	967.096	1,048.389	477.5	518.5

Income	Mitsubishi Bank			Bank of Tokyo		
	Current revenues (¥bn)	Net operating profit (¥bn)	Return on equity (%)	Current revenues (¥bn)	Net operating profit (¥bn)	Return on equity (%)
1990-91	4,172.940	161.263	5.8	2,386.756	144.873	6.3
1991-92	3,773.438	212.385	4.9	2,285.013	175.806	6.2
1992-93	2,796.001	336.452	2.7	1,900.805	202.905	4.8
1993-94	2,852.211	283.541	1.7	1,591.164	165.109	5.4
1994-95*	2,900.000	280.000		1,400.000	165.000	

*Estimate by Tokyo Mutual Japan Company Handbook

Source: Tokyo Mutual Japan Company Handbook

At the heart of a close-knit family Special status in the establishment

Mitsubishi Bank is the financial heart of Japan's largest and most tightly knit corporate family, or *keiretsu*.

The Mitsubishi *keiretsu's* already enormous financial power - combined assets of ¥110,000bn (\$1,230bn) - will be further strengthened and gain a broader international reach after the merger with Bank of Tokyo, which has a large network of foreign branches.

JAPAN'S KEIRETSU ARE OFTEN

CRITICISED BY THE US AND THE EUROPEAN UNION FOR EXCLUDING FOREIGNERS BY DETERRING TAKE-OVERS AND KEEPING CONTRACTS AND FUNDS WITHIN THE GROUP.

The creation of the world's largest bank within the most powerful *keiretsu* may accordingly attract fresh international scrutiny of Japan's corporate families. Until recently, such groups appeared to be weakening, rather than closing ranks.

Mitsubishi Bank sits with

Mitsubishi Heavy Industry, the aerospace and engineering group, and Mitsubishi Corporation, the elite trading company, at the centre of a vast network of mutually interlocking minority share stakes. It is an industrially diverse web, embracing 216,000 employees in businesses ranging from Meiji Mutual Life Insurance, one of Japan's biggest institutional investors, to Asahi

Glass, Nikon cameras and Kirin beer.

Bank of Tokyo already sits on the edge of the group, since some of its main shareholders, Meiji Life and Mitsubishi Corporation, Trust and Bank, already come from the *keiretsu*. But Bank of Tokyo is not yet a full member: it does not belong to the group's presidential council, an informal but influential club of top Mitsubishi managers who meet once a month over lunch in the group's central Tokyo headquarters.

Mitsubishi Bank was founded in 1880, the same year as its new partner. It started life as Mitsubishi Exchange Office, established by Yataro Iwasaki, founder of the Mitsubishi group, and incorporated as a bank in 1919. Since then, the bank has played an important part in the wealth of the Mitsubishi group, as a lender and provider of management and financial advice.

Keiretsu members depend on Mitsubishi Bank and other group financial institutions for 25 per cent of their outstanding long-term borrowing - higher than the *keiretsu* average - according to Japan's Fair Trade Commission. Of that, the bank provided half, ¥259bn by mid-1993, says an FTC report. Mitsubishi Bank's total lending to other group members is smaller as a proportion of the whole, but still significant at an estimated 5 per cent.

William Dawkins

The Bank of Tokyo has long prided itself as being part of Japan's establishment, and has been regarded as a quasi-governmental organisation.

In the years before the second world war, when it was the country's sole foreign exchange bank, employees were given diplomatic status and regarded as financial ambassadors to the world.

The bank was founded in 1880 as the Yokohama Specie

BANK OF TOKYO

Bank and was partly owned by the imperial family.

It became one of the central instruments of the Japanese government's drive towards international expansion and, positioned as an organisation for the elite, it attracted graduates from the country's top universities.

In 1911 the bank concluded Japan's first foreign public bond issue, underwriting a ¥10m railway bond for China's Qing dynasty. In the 1930s, it played an important role in financing Japan's invasion of Manchuria.

Following the second world war, the bank was reorganised by US occupation forces, and re-established itself as the Bank of Tokyo. In 1984 it was inaugurated as the country's specialised foreign exchange bank under the Foreign Exchange Bank Law. Due to legal limits on the expansion of

domestic branches, it focused on international operations, mainly helping Japanese companies which ventured abroad.

The turning point came in 1970 when the ministry of finance liberated the foreign exchange market. The bank stumbled in the 1980s, aggressively increasing sovereign loans to Latin American countries which subsequently turned bad. At the peak in 1985, it was reported to have had ¥700bn in loans to the region.

The rise in the international profiles of other Japanese banks forced Bank of Tokyo to try to expand its domestic business. It has tried to shed its elitist image and cultivate new clients, especially among smaller companies.

The bank has also tried to shake off the government's influence on policy making. Traditionally, ministry of finance and bank officials have taken it in turns to head the bank as president. Mr Tasuku Takagaki, current president and a Bank of Tokyo man, was the first to break with tradition, succeeding Mr Minoru Inoue, who also came from the bank.

However, the bank retains a special relationship with the government. It still plays an important role in distributing foreign aid to developing countries, and manages much of the ministry of finance's foreign currency holdings.

Emiko Terazono

Industry pays price for past delays

Mergers between large banks looking to secure long-term growth potential have been welcomed in the past by Japanese financial authorities. The conventional wisdom for Japanese banks, which use market share as a measure of their strength, has been that bigger is better.

In the 1970s, Daiichi Bank and Nippon Kangyo Bank merged to become the country's largest, while Taiyo Bank and Kobe Bank, two small commercial institutions, expanded sharply during the 1980s as banks invested in new branches, while liberalisation, which was supposed to lead to the industry's consolidation, was slow in coming. The country's banks are now being forced to pay for such delays. Japan is heading towards full financial deregulation, including liberalisation of interest rates, and the introduction of new products. Some of the stronger banks, mean-

Recent mergers in Japanese banking		
Date	Banks merged	New bank
October 1971	Daiichi & Nippon Kangyo	Dai-ichi Kangyo Bank
October 1973	Kobe & Taiyo	Taiyo Kobe Bank
April 1980	Mitsui & Taiyo Kobe	Mitsui Bank
April 1991	Kyowa & Saitama	Asahi Bank

The burst of the asset "bubble" of the late 1980s and mounting bad loan problems have provided more banks with incentive to rationalise through mergers.

The financial industry expanded sharply during the 1980s as banks invested in new branches, while liberalisation, which was supposed to lead to the industry's consolidation, was slow in coming.

The country's banks are now being forced to pay for such delays. Japan is heading towards full financial deregulation, including liberalisation of interest rates, and the introduction of new products. Some of the stronger banks, mean-

while, are being forced to bail out smaller institutions, which have stumbled due to the high level of bad debts.

In 1986, Sumitomo Bank acquired Heiwa Sogo Bank, a regional bank based in eastern Japan, while last October Mitsubishi Bank pumped extra capital into Nippon Trust, taking a controlling stake.

With 45 per cent of the private-sector domestic loan market held by the top 21 banks - the city, long-term credit and trust banks - and the remaining 5,700 institutions sharing the other 55 per cent, rationalisation is inevitable.

However, banks looking for future growth through mergers

are increasingly constrained by the growing emphasis on profitability and the size of their capital base. Although Japanese banks have in the past been caught up in the absolute size of assets and profits, while the growth of profitable assets have been neglected, this is being reversed.

One of the main predicaments faced by Sakura Bank, created by the merger between Taiyo-Kobe Bank and Mitsui Bank, has been to raise its capital ratio set by the Bank of International Settlements.

Bank of Tokyo, with its relatively low level of problem loans and a strong capital base, was thought to be one of the few candidates for a merger with another large bank. But as one banker said yesterday, now that Bank of Tokyo is merging with Mitsubishi "there aren't that many attractive partners".

Emiko Terazono

LVMH
MOËT HENNESSY. LOUIS VUITTON
1994 NET INCOME UP 23.4%

1994 consolidated net income of LVMH Moët Hennessy Louis Vuitton amounted to FF 6,421 million, an increase of 79.7% over 1993. It includes significant unusual income, primarily from the restructuring of the Group's relationship with Guinness PLC. Excluding these unusual items, net income totaled FF 3,667 million, up 23.4% over 1993.

Net sales for 1994 amounted to FF 27,967 million, up 17.4% over 1993. Income from operations totaled FF 6,804 million, up 21.2%, reflecting higher margins in all of the Group's segments of activities.

Consolidated highlights were as follows

In FF millions	1994	1993
• Net sales	27,967	23,819
• Income from operations	6,804	5,614
• Net income	6,421	3,574
Net income, excluding unusual items	3,667	2,972

The recovery begun in 1993 in most of LVMH's markets accelerated in 1994. It resulted in higher sales for the Group - which generates 85% of its sales outside of France - in all segments of activities and in all geographical markets, with particularly strong growth in the fourth quarter. This upward trend continued in January and February 1995.

By segment of activity, the major highlights of 1994 were:

By segment of activities

In FF millions	Sales		Income from operations	
	1994	1993	1994	1993
• Champagne & wines	5,712	5,444	837	776
• Cognac & spirits	5,987	5,846	1,969	1,910
• Luggage & leather goods	6,716	5,665	3,090	2,318
• Perfumes & beauty products	7,686	6,128	1,113	852
• Other, including holding company expenses	1,866	736	(205)	(242)
LVMH TOTAL	27,967	23,819	6,804	5,614

Champagne & wines: Moët & Chandon, Veuve Clicquot, Ruinart, Mercier, Canard-Duchêne

The 8% increase in income from operations reflects higher sales as well as lower grape prices and production costs. While the environment remains very competitive, the champagne market is recording an overall expansion.

Cognac & spirits: Hennessy, Hine, F.O.V.

The slight improvement in operating margin primarily reflects higher sales volumes, notably in China.

Luggage & leather goods: Louis Vuitton, Loewe, Berluti

The dramatic increase in sales and ongoing productivity gains at all levels of the organization led to a 33% rise in income from operations. The success of new product lines was confirmed.

Perfumes & beauty products: Christian Dior, Guerlain, Givenchy, Kenzo, Christian Lacroix

The 31% increase in income from operations, achieved despite considerably higher advertising and promotional expenditures, reflects the success of recent launches and the popularity of the segment's new products, notably Tendre Poison and Dior Svelte at Parfums Christian Dior, Fleur d'Intéridit and Insensé Ultramarine at Parfums Givenchy, and Kashaya de Kenzo. The integration of Guerlain and Kenzo also contributed to the increase in sales.

Guinness PLC, in which LVMH is the largest shareholder with a 20% interest, recorded a 6% increase in net income.

In addition, a number of transactions completed during the year considerably enhanced the Group's financial structure. Total stockholders' equity rose by FF 11.6 billion to FF 35.3 billion at 1994 year end. Net financial borrowings declined from FF 15.8 billion at 1993 year end to FF 3.4 billion at 1994 year end. As a result, the Group's debt-to-total assets ratio stood at 5% at 1994 year end. As a result, net financial expense declined by 44% in 1994, and is expected to be cut in half in 1995.

In 1995, economic growth should continue in LVMH's major markets and the Group will pursue aggressively the implementation of its long-term growth strategy based on balance and complementarity among its various brands and activities. If the trends recorded since late 1993 persist, the LVMH Group should continue to record sustained growth in its activities and meet its goal of achieving a very significant increase in 1995 net income.

The Board of Directors will propose to the Annual Meeting of Shareholders of June 8, 1995 the distribution of a FF 17.50 net dividend per share payable June 19, 1995.

LVMH, THE WORLD'S LEADING LUXURY PRODUCTS GROUP

This announcement appears as a matter of record only.

Maple Leaf Cement Factory Limited.

Lahore, Pakistan

US\$70,200,000

Financing to construct a 930,000 tpa clinker line and to upgrade and improve existing production facilities

Arranged by
International Finance Corporation

US\$5,200,000

Equity Investment

Provided by
International Finance Corporation

US\$30,000,000

Term Loan

Provided for its own account by
International Finance Corporation

US\$35,000,000

Term Loan

Provided through a participation
in the IFC loan by

The Sanwa Bank Limited
(on behalf of Marubeni Corporation)

December 1994

Potgietersrust Platinum Limited

(Incorporated in the Republic of South Africa)

Registration No. 01/08353/06 ("PP Rust" or "the Company")

Result of the capitalisation award

The offer to receive a cash dividend in lieu of the capitalisation shares award made to shareholders registered on Friday, 24 February 1995 closed at 12:00 on Friday, 24 March 1995. Elections to receive the cash dividend of 30 cents per share totalled R 3 502 085.10.

Shareholders holding 90.29 per cent of the issued ordinary share capital in the company have been allotted new ordinary shares. Accordingly, 1 520 374 new ordinary shares in the company will be issued and are expected to be listed on The Johannesburg Stock Exchange and The Stock Exchange, London with effect from the commencement of business on Wednesday, 29 March 1995.

Share certificates in respect of the new capitalisation shares and cheques in respect of the dividend will be despatched to shareholders today, Wednesday, 29 March 1995.

By order of the Board
Johannesburg Consolidated Investment Company, Limited
Secretaries
per: R.W. Furney
Johannesburg
29 March 1995

THE EMERGING MARKETS STRATEGIC FUND

Société d'Investissement à Capital Variable
Registered Office: 2 boulevard Royal
L-2289 LUXEMBOURG
R.C. Luxembourg B-32263

Notice is hereby given to the shareholders that the

ANNUAL GENERAL MEETING

of shareholders of the EMERGING MARKETS STRATEGIC FUND will be held at the head office of Banque Internationale à Luxembourg, Société Anonyme, 69, route d'Esch, Luxembourg, on April 6, 1995 at 11.00 am with the following agenda:

1. Submission of the Reports of the Board of Directors and of the Auditor;
2. Approval of the Statement of Assets and Liabilities and of the Statement of Operations for the year ended as at December 31, 1994; Appropriation of the results;
3. Discharge to the Directors;
4. Receipt of and action on appointment of the Directors and of the Auditor;
5. Miscellaneous.

The shareholders are advised that no quorum is required for the items on the agenda of the Annual General Meeting and the decisions will be taken on simple majority of the shares present or represented at the Meeting.

In order to attend the meeting the owners of bearer shares will have to deposit their shares five clear days before the meeting with Banque Internationale à Luxembourg, 69, route d'Esch, Luxembourg.

The Board of Directors

U.S. \$100,000,000

BACOB Overseas Limited

(Incorporated in the Cayman Islands with limited liability)

Guaranteed Floating Rate Notes due 1997

guaranteed by

BACOB Savings Bank S.C.

(Incorporated in the Cayman Islands as a co-operative limited liability company)

Notice is hereby given that for the

three months interest period from

March 29, 1995 to June 29, 1995

the Notes will carry an interest rate

of 6.42% per annum. The interest

payable on the interest payment date,

June 29, 1995 will be U.S. \$164.83 and

U.S. \$1,648.33 respectively for Notes

in denominations of U.S. \$100,000 and

U.S. \$100,000.

By: The Chase Manhattan Bank, N.A.

London, Agent Bank

March 29, 1995

C-1456

Annual General Meeting of AB Volvo (publ)

The Annual General Meeting of the shareholders of AB Volvo will be held in Lisebergshallen, Örgrytevägen, Göteborg (Sweden) at 2:00 p.m., Wednesday, April 19, 1995.

Matters to come before the Meeting, as prescribed by law and the Company's Articles of Association, shall include: presentation of the annual report and the auditors' report for the year 1994; adoption of the Income Statement and Balance Sheet of AB Volvo as well as the Consolidated Income Statement and Consolidated Balance Sheet; disposition of the profit as shown in the Balance Sheet adopted; discharge of the Board of Directors and President from liability; determination of the number of members and deputy members to be elected by the Meeting to serve on the Board of Directors; approval of fees to be paid to the Board and the auditors; and the election of the Board, the auditors and the deputy auditors.

In addition, election of members to a nomination committee will be held. Furthermore, the Meeting will address the Board of Directors' proposal of a SEK 25 million grant to a research foundation.

Right to participate in the Meeting
Participation in Volvo's Annual General Meeting is limited to shareholders who are recorded in the share register on April 7, 1995 and who advise Volvo, no later than 12:00 noon (Swedish local time), Tuesday, April 18, 1995, of their intention to participate.

Share register
Volvo's computerized share register is maintained by Värdepapperscentralen VPC AB (Swedish Securities Register Center). Only owner-registered shareholders are listed in the names of shareholders in the share register. To be entitled to participate in the Annual General Meeting, owners of shares registered in the name of a trustee must have their shares registered in their own names. To assure that such shares are reregistered in due time, the holders of trustee-registered shares should request that the bank or broker acting as custodian of the shares register them temporarily in the name of the shareholder several banking days prior to April 7, 1995. Trustees normally charge a fee for this service.

Notice of intention to participate

Shareholders who wish to participate in the Meeting must notify Volvo of their intention to do so no later than 12:00 noon (Swedish local time), April 18, 1995, either by telephone: +46 31 59 00 00 or +46 31 59 21 50

or in writing, to:
AB Volvo (publ)
Legal Department
S-405 08 Göteborg, Sweden

In providing such notice, a shareholder should state his or her name, personal registration number (where applicable), address and telephone number. Shareholders who wish to appoint a proxy to act on their behalf at the meeting should notify AB Volvo well in advance of the meeting, giving the name of the proxy. A proxy need not be a shareholder of AB Volvo. April 24, 1995 has been proposed by the Board of Directors as the record date for the payment of dividends. Payment is expected to be made through VPC on May 2, 1995.

By order of the Board of AB Volvo

Fred Bodin, Secretary to the Board
AB Volvo (publ)
S-405 08 Göteborg, Sweden

March 1995

VOLVO

Henderson Land optimistic after 62% interim rise

By Simon Holberton
in Hong Kong

Henderson Land yesterday heralded the end of Hong Kong's property downturn, while announcing a 62 per cent rise in net profits to HK\$3.78bn (US\$490m) in the six months to end-December.

The profits figure, which compares with HK\$2.34bn last time, exceeded expectations.

The company, one of the colony's leading property groups, gave the most optimistic assessment to date of the outlook for Hong Kong's property market.

Directors said that after "consolidation and slowdown" last year, they expected the residential property market to "soon become active". They forecast that prices - which fell by between 20-30 per cent for new flats - would begin to rise and keep pace with inflation.

The colony's other property developers have produced mixed results in the current reporting season, with Wharf, Sino Land and Cheung Kong coming in below expectations.

Henderson's turnover rose 76 per cent to HK\$6.5bn from HK\$3.68bn previously.

Directors declared an interim dividend of 50 cents a share, up from 40 cents last time.

Earnings per share increased to HK\$3.38 from HK\$1.47 previously.

The company was well insulated from the effects of the Hong Kong government's policy to cool the colony's residential market.

It said pre-sales had been completed by the time the measures came into effect and that the generally low acquisition cost of its land bank meant a "good profit margin" was maintained.

The company's land bank amounted to 1.4m sq ft of attributable floor area at the end of last year; in China, its land bank was approximately 12m sq ft.

Henderson said its developments in China were producing satisfactory results.

It added that its property investment portfolio returned good rents. Gross rental income rose 63 per cent to HK\$409.6m from a year earlier.

Daewoo Securities posts sharp increase

By John Burton
in Seoul

Daewoo Securities yesterday reported the highest 1994 net profits among the subsidiaries of the Daewoo group. South Korea's fourth biggest conglomerate.

Helped by the sharp recovery in the Seoul stock last year, net earnings jumped 114 per cent to Won\$7.6m (\$14m) as sales climbed 52 per cent to Won\$35bn.

Daewoo Heavy Industries, which merged with Daewoo Shipbuilding last October, reported a 65 per cent fall in net profits to Won\$4.2bn on a pro forma basis.

Daewoo Shipbuilding, which was unlisted until the merger, recorded the biggest profits in the Daewoo group in 1994.

Analysts said the earnings decline for the enlarged company reflected costs associated with the merger, weaker prices for ship, and sluggish sales for its heavy machinery business.

Sales at Daewoo Heavy

dropped 33 per cent to Won\$1.61bn. Daewoo Corporation, the trading and construction unit and the group's biggest subsidiary in sales terms, posted unchanged earnings at Won\$4.1bn. Sales grew 10 per cent to Won\$10.52bn.

The group's electronics business improved its earnings performance. Daewoo Electronics, the consumer electronics division, posted a 63 per cent rise in net profits to Won\$4.8bn, while sales increased 24 per cent to Won\$2.49bn on the back of increased exports.

Orion Electric, which makes television tubes, lifted net profits 28 per cent to Won\$835m on a 40 per cent rise in sales to Won\$68bn.

Daewoo Telecom posted a 25 per cent rise in earnings to Won\$738m, while sales increased 24 per cent to Won\$570bn.

The group did not disclose earnings for Daewoo Motor. Analysts estimate it lost between Won\$30bn and Won\$40bn last year.

Foodcorp climbs 18.5%

By Mark Suzman
in Johannesburg

Foodcorp, the food processing arm of South Africa's Malbak group, surprised analysts and exceeded its own forecasts with an 18.5 per cent rise in attributable income to R56.3m (\$15.6m) for the six months to end-February.

Improved trading conditions led to higher prices and increased volumes across most divisions, lifting turnover 19.3

per cent to R1.58bn from R1.32bn a year ago. Operating income rose 19.4 per cent to R101.6m from R85.1m a year earlier.

An interim dividend of 27 cents has been declared, up from 24 cents.

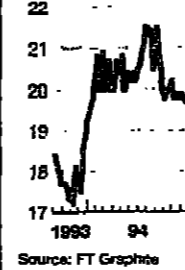
Dividend cover was maintained at 4.3 times. However, distributable earnings were hit by a higher tax bill and a 47.4 per cent increase in financing costs, to R14.3m from R9.7m.

NEWS DIGEST

Lindt & Sprüngli confident despite 4% decline in year

Lindt & Sprüngli

Share price (Sfr 1000)



Source: FT Graphix

Lindt & Sprüngli, the Swiss premium confectionery group, has reported a 4 per cent fall in 1994 consolidated net income to Sfr38.1m (\$32.8m), on a 3 per cent drop in sales to Sfr\$63.9m, writes Ian Rodger in Zurich.

The rise of the Swiss franc and management weakness in France, Spain and Portugal caused the decline, Mr Ernst Tanner, chief executive, wrote in the group's annual report. Remedial measures had been taken in these countries.

Lindt, which is celebrating its 150th anniversary, is maintaining its regular dividend and offering a bonus payout of Sfr100 per share and Sfr10 per participation certificate.

Mr Tanner, who has reorganised Lindt's management and strategy since joining the group just over two years ago, said results in the current year to date gave him room for optimism. The continuing strength of the Swiss franc was the only cause for concern.

The group, largely dependent on the German, French and Swiss markets, is expanding in eastern European countries and in North and South America.

Mr Rudolf Sprüngli, the group's 76-year old chairman, is due to retire following the annual meeting on April 20.

Austrian insurer raises earnings forecast

Wiener Städtische, Austria's largest insurance group, expects a 1994 consolidated net income of between Sch\$670m and Sch\$890m (\$87.9m-\$89.9m), according to the Austrian financial analysts' calculation method, compared with Sch\$62m in 1993, writes Ian Rodger.

The result is substantially better than the forecast of a slightly reduced profit published last September when the group, controlled by a mutual society, made an initial public offering of 1.35m Sch\$100 par value shares.

The planned 20 per cent dividend is above the 15 per cent undertaking made at the time of the IPO, and the directors are also proposing a 20 per cent flotation bonus dividend.

The group said the favourable development of benefit payments, an improved reinsurance result and cost controls were responsible for the result.

Turkey sells off airport handling group for \$36m

Turkey's slow-moving privatisation effort took a step forward yesterday with the sale of Havas, the state-owned airport handling company, to a local businessman for \$36m, writes John Barham in Istanbul.

The passage of a framework privatisation law at the end of last year raised hopes that the programme was gaining impetus after 10 years' debate. However, progress since then has been disappointing. The government has made little headway in preparing its large and mainly loss-making companies for the market.

Mr Turay Ciner, who has built up a diversified business group from humble beginnings, agreed to pay the government \$14m cash with the balance financed over two years for the company, which operates at Turkey's principal airports.

Mr Ciner plans to float 40 per cent of the company in an initial public offering on the Istanbul stock exchange, probably by the end of May, according to local broker Global Securities which is handling the IPO.

Paranapanema slips into the red in 1994

Paranapanema, the world's biggest tin miner, blamed the appreciation of Brazil's new Real currency for a consolidated loss of R\$3.3m (\$10.3m) for the year ending December 31 1994.

In 1993, it made profits after tax of R\$30.4m, writes Patrick McCurry in São Paulo.

The Real appreciated by about 15 per cent against the dollar in nominal terms soon after its launch last July.

Paranapanema, which derives three-quarters of its sales from tin exports, said the appreciation offset the recovery in world tin prices during the first half of the year and resulted in an exchange rate loss of R\$17.5m on overseas assets.

The average export tin price was \$5,422 a tonne in 1994, against \$4,963 in 1993.

Since last October, prices have increased to about \$6,000.

Paranapanema, controlled by Brazil's Lacombe family, said the loss per 1,000 shares was R\$0.50.

The company cut production of tin concentrate last year in an attempt to reduce world stocks and push up prices.

Sentrachem lifts profits 48% at six months

Sentrachem, the South African chemicals group, recorded a 48 per cent increase in after-tax income to R98m (\$27.2m) for the six months to end-February from R67m a year earlier, writes Mark Suzman.

Turnover climbed 37 per cent to R1.76bn from R1.28bn and operating income rose 23 per cent to R135m from R124m.

Earnings per share rose 36 per cent to 62.9 cents, in spite of a higher number of shares in issue, from 39 cents a year ago.

The interim dividend was raised by 50 per cent to 12 cents from 8 cents.

The combination of a successful R289m rights issue last April and higher profit retention increased shareholder funds to R1.1bn from R970m.

As a result, net borrowings at R250m were sharply down on the R387m recorded a year ago, but up from R147m at last August's year-end.

The directors said the combination of stronger domestic growth and an improving international market for chemicals should lead to growth "substantially better than the inflation rate" over the next 12 months.

Brazilian brewer held back by high taxes

Profits at Companhia Carveira Brahma, Brazil's largest brewer and beverages producer, were virtually unchanged for the year ending December 31 1994, in spite of increased consumer demand following a fall in inflation, writes Patrick McCurry.

The company posted consolidated profits after tax of R\$117.5m (\$131m), compared with R\$116.7m for the same period in 1993.

Gross income increased to R\$3bn last year from R\$2.4bn.

However, there was a sharp increase in operating costs, to R\$561.3m from R\$273.7m, partly because of the company's beer marketing promotion during last year's World Cup and the launch of two new beers and a soft drink.

The company said profits growth continued to be hampered by high taxes on beer.

Taxes represent half its gross income.

A dividend of R\$4.45 per 1,000 shares has been recommended.

Brahma's sales increased 20 per cent in the second half of last year due to the launch of the Real currency, which has brought down inflation and stimulated consumer demand. The company is operating at full capacity, compared with 80 per cent at the beginning of last year. It is investing in a new Brazilian plant and a factory in Argentina.

MGM Grand acquires Australian casino

MGM Grand, the Las Vegas casino group controlled by billionaire investor Mr Kirk Kerkorian, is expected to spend about A\$10m (US\$7.1m) upgrading the Diamond Beach casino in Darwin, after buying the property for US\$75m yesterday, according to local management, writes Nikki Tait in Sydney.

The purchase takes MGM Grand outside the US casino market for the first time, and comes amid increased interest by international investors in Australia's rapidly-expanding casino industry. An A\$1bn-plus casino in Sydney, for example, is to be built by a joint venture between Showboat of the US and the local Leighton Holdings.

THE FIRST MEXICO INCOME FUND N.V.

Incorporated in the Netherlands Antilles

NOTICE OF DIVIDEND

Shareholders are informed of a dividend of US\$0.40 per share of Common Stock to holders of record as of March 23, 1995.

The ex-dividend date was March 17, 1995. Shareholders have the option of receiving cash or stock dividends. Please contact your broker for information. The stock dividend will be determined based on the net asset value calculated on April 5, 1995.

The dividend will be paid on April 13, 1995. Payment of the dividend on the bearer shares will be made against surrender of coupon No. 19 detached from the share certificates which for this purpose shall be lodged at:

MEESPIERSON N.V.

Rokin 55, 1012 KK Amsterdam

The Netherlands

which acts as Paying Agent on behalf of the undersigned.

March 24, 1995

MEESPIERSON TRUST (Curacao) N.V.

Abbey National First Capital B.V.

Can\$100,000,000

Subordinated Collared

Floating Rate Notes 2004

Notice is hereby given that

the notes will bear interest

at 7.975% per annum from

27 March 1995 to 27 September

1995. Interest payable on

27 September 1995 will amount

to Can\$40.20 per Can\$1,000 note,

Can\$402.03 per Can\$10,000

note and Can\$4,020.27 per

Can\$100,000 note.

Agent: Morgan Guaranty

Trust Company

JPMorgan

Commodity & Financial

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CASIN, FUTURES, OPTIONS AND

INTERNATIONAL COMPANIES AND FINANCE

S&P turns negative on six NY firms

By Maggie Urry in New York

Standard & Poor's, the US credit rating agency, has taken a negative stance on six leading Wall Street firms, citing continued turbulence in capital and currency markets.

While it is not downgrading the firms' debt, S&P's change in its long-term ratings outlook from stable to negative signals its uncertainty over the "depth and duration of the earnings downturn currently affecting them all".

The six firms are Bear Stearns, CS First Boston, Goldman Sachs, Morgan Stanley, PaineWebber and Salomon. S&P turned negative on Leh-

man Brothers last September.

The move follows poor results for all the securities firms in 1994 and a round of job cuts. Many have lost money trading fixed income securities in particular, while underwriting volumes have fallen sharply for both debt and equity issues. Last week, Moody's Investors Services downgraded Lehman's debt and had earlier put Salomon's on rating review.

S&P said Bear Stearns, although profitable, was producing weak returns on equity. CS First Boston was hurt in 1994 by low fixed-income underwriting and trading volumes and losses in asset man-

agement. Goldman Sachs' pre-tax return on equity was "only 10 per cent" in 1994, S&P said, although it had made significant savings which could increase profitability.

Morgan Stanley's return on equity fell from 17 per cent to 10 per cent in 1994, but its fall in revenues was more moderate than others.

PaineWebber's earnings were "very weak", the agency said, due to difficulties in fixed income. Salomon made large losses in client-driven businesses.

S&P said the low volumes of business and reduced margins affecting the firms were expected to continue.

It added that "core earnings for some firms may prove insufficient to absorb potential trading losses resulting from market instability".

On the positive side it said the firms were cutting costs which might enable them to sustain profits in spite of the weak trading conditions. Risk management could limit exposure to catastrophic losses.

If the firms managed to "navigate the heightened risk of the current environment" their debt ratings would not be changed.

However, S&P warned it would cut ratings if an individual firm's profitability worsened.

GBL improves 4% to BFr6.6bn

By Emma Tucker in Brussels

Groupe Bruxelles Lambert, Belgium's second largest holding company, lifted net profits 4 per cent last year, compared with 1993.

After-tax profits for the diversified company with media, finance and energy interests rose to BFr6.6bn (\$2.2bn) from BFr6.3bn in 1993. In spite of a BFr3.5bn rights issue in January last year the group managed to increase net profit per share by BFr1 to BFr22.

A drop in the group's finan-

cial income was partly offset by strong profit gains at most of the group's affiliates which include Petrofina, the chemicals company, BBL, the commercial bank, and Tractebel, the Belgian energy company.

Its share of earnings from the industrial financial and media interests rose to BFr5.5bn from BFr4.92bn the previous year, while financial income fell to BFr641m from BFr721m.

GBL, whose holdings include Royale Belge, the insurance company, and which shares control of CLT, the Luxem-

bourg media company, said the decline in financial income followed significant investments to lift the group's stakes in Electrabel, Audiofina, and Parifina, respectively electricity, media and financial outfits.

GBL said funds raised from a LFr5.5bn (\$190m) eurobond issue allowed it to make necessary investments including BFr7.2bn to lift its stake in Electrabel to 45 per cent from 42 per cent.

It increased its stake in Audiofina, the parent company of CLT, to 55.3 per cent from 52.5 per cent.

Japan banks liquidate non-bank affiliates

The Bank of Osaka, Fukuoka Bank and Hanwa Bank, all regional banks based in western Japan, said they would liquidate 11 allied non-bank financial affiliates. Reuter reports from Tokyo.

Bank of Osaka said it decided, at an emergency board meeting yesterday, to liquidate three affiliated non-banks because it had proved too difficult to restructure the units.

Debits at the Bank of Osaka's three affiliates totalled ¥402.8bn (\$4.5bn). The bank planned to write off a combined ¥20bn in bad loans related to the units this fiscal year, it said.

Bank of Osaka said the parent bank would post a ¥30bn current loss in the year ending on March 31, against a ¥2.36bn profit a year earlier. Its earnings were hit by losses stemming from write-offs of bad loans and those of its three units, and appraisal losses on shareholdings due to drops in share prices.

Bank of Osaka's write-off of its bad loans to the three non-banks would continue in the next fiscal year, it added. Fukuoka Bank said it was liquidating six non-bank units. In the year ending March 31, it would post special losses of ¥42.8bn related to the liquidation.

Fukuoka said the parent bank would post a ¥8bn current loss this fiscal year, against a ¥1.51bn profit a year before, because of bad loan write-offs.

Hanwa Bank said it was liquidating two non-bank affiliates which have large amounts of debt, and forgiving loans to the units totalling ¥10.57bn.

It forecast a ¥5.9bn current loss for the parent in the year ending on March 31, compared with a ¥1.48bn profit a year before.

Analysts said more banks might have to liquidate their non-bank affiliates in the future. Many banks invested aggressively in the real estate industry through their non-bank units during the mid-1980s. Non-banks now face serious financial troubles as Japan's real estate market continues to slump.

There are worries that many banks may no longer be able to provide support for their affiliates, analysts said. However, Japanese regional banks in general are financially in good shape in spite of problem loans at non-bank units.

Banco Santander wins US rights

By Richard Waters in New York

Banco Santander, the Spanish bank, became the latest in a growing list of European banks to win powers to underwrite debt and equity securities in the US.

The bank's application to set up a specialist investment banking subsidiary was granted by the Federal Reserve late on Monday, setting it alongside A&N Amro, Deutsche Bank and Swiss Bank Corporation.

Barclays, the UK bank, has the power to underwrite debt, while some others operate under more restrictive "grandfathering" provisions which

allow them to continue with businesses which predate US legislation in this area.

Ms Ana Patricia Botin, head of Santander's investment banking operations, said the bank would limit itself mainly to bringing Latin American and southern European issuers to the US capital markets.

It employs 50-60 people in related jobs in New York, "but what we did have was distribution capacity," said Ms Botin. The bank expects to hire another 50 people over the next year to sell securities to US investors.

Latin American issuers have been effectively shut out of the US markets since the devaluation of the Mexican peso last

December prompted an economic crisis in that country.

Ms Botin said Santander believed the market would soon open again, but this time only to top-quality companies or issuers who were seeking to securitise assets or offer some form of collateral.

SBC and Deutsche Bank have given up their own grandfathered investment banking businesses over the past year in favour of setting up their own investment banking units, known as Section 20 subsidiaries. Though limited in the amount of business they can conduct, these units operate with greater freedom. Five Canadian and three Japanese banks operate Section 20 units.

Time Warner stake talks with TCI break down

Talks between US media companies Time Warner and Telecommunications (TCI) over the sale of Time Warner's 19.4 per cent stake in Turner Broadcasting have broken down, writes Tony Jackson in New York. However, it was unclear yesterday whether this was a negotiating tactic on TCI's part.

Time Warner wants to sell its Turner stake, which has a market value of just under \$1bn, to reduce debt. The company has spent almost \$5bn on acquiring cable TV networks, making it a rival to TCI as the largest US cable company.

TCI said yesterday: "The situation is that at this point in time, we're not pursuing the matter. We've had some discussions, but price was an issue." However, the company added, "you don't want to say never."

Mr Gerald Levin, Time Warner's chairman, believes the Turner stake can be sold above its market price.

Koor hit by weakness on Tel Aviv exchange

By Eric Silver in Jerusalem

Koor Industries, Israel's biggest industrial company, yesterday reported net profit for 1994 of \$120m, down \$23m on 1993.

However, Koor increased sales and exports by 17 per cent and 22.5 per cent respectively.

Mr Arie Gans, the chief accountant, attributed the decline in net profits to the weakness of the Tel Aviv stock exchange, which forced Koor to delay floating several subsidiary companies. In 1993, Koor raised more than \$30m through such issues.

The company suffered from investments in shares, pending investment in fixed assets. Its net loss on the exchange totalled \$7m, compared with a gain of \$10m in 1993.

Total sales rose to \$3.1bn, up from \$2.7bn in 1993. Exports increased to \$932m from \$761m.

Gross profits rose 14 per cent to \$678m.

This month, Shamrock, a US investment company, bought a 22.5 per cent stake in Koor from the Histadrut trade union federation.

Mr Benny Gaon, Koor's chief executive, hailed the Shamrock connection as a springboard to Wall Street.

Based on our June results, he said, "we want to raise \$100m on the US stock exchange for the purpose of growth and expanding activities. By having a US company as a shareholder, we intend to be the first Israeli holding company traded in the US."

Mr Gaon said the group aimed to bring more multinationals into strategic partnership with Koor subsidiaries in 1995, to put together a consortium to bid for the national airline El Al, which the government plans to privatise, and to expand the company's tourism interests.

Watchdog clears Caltex-Ampol merger

By Nikki Tait in Sydney

The multi-billion dollar merger between Caltex Australia and Ampol, which will create a market leader in petroleum refining and marketing in Australia, was yesterday given the go-ahead by the Trade Practices Commission, the country's competition watchdog.

The move came after the two companies had given pledges over supplies to independent wholesalers and retailers.

The deal, under which the two companies will pool their businesses in a 50:50 joint ven-

ture with sales of about A\$68m (US\$40m), was announced last year. It brings together the two smallest groups in the market, led by Shell Australia.

However, in February the TPC said the merger was anti-competitive. Under the final agreement, the companies have promised to:

- sell oil terminals at Brisbane, Sydney, Melbourne, Adelaide, Newcastle and Port Alma, which would allow the import, storage and distribution of petrol supplies to independent wholesalers and retailers;

• guarantee the sale of at least 10 litres of petrol a year to independent on "reasonable commercial terms";

• sell distribution rights owned by Ampex-Caltex to independents;

• sell 20 distribution depots, and 35 metropolitan and 15 country retail sites;

• release restrictive covenants on former independent owners who have left the industry, allowing them to re-enter, and to guarantee existing supply arrangements.

Professor Allan Fels, head of the Trade Practices Commis-

sion, said the undertakings were "the key to ensuring competitive pressure to hold prices down".

However, Pioneer (the listed building products company which owns Ampol) and Caltex said the undertakings would cost about 10 per cent of the value of synergies created by the merger.

The deal will require the support of Caltex shareholders at an extraordinary meeting on May 8. Caltex is 75 per cent owned by Caltex of the US, which is in turn jointly owned by Texaco and Chevron.

Asset sales lift Shell Australia

By Nikki Tait

Proceeds from asset sales helped Shell Australia, the local offshoot of Royal Dutch Shell, the Anglo-Dutch oil company, to post after-tax profit of A\$268m (US\$167m) in 1994, up from A\$268m the previous year.

The 1994 result included about A\$626m of non-recurring items - notably from the sale of interests in Worsley Alumina, the flotation of its gold assets in Arada Resources, a new company, and the sale of part of its shareholding in

Woodside Petroleum, the North West Shelf operator.

At the operating level, Shell said good performances from the upstream oil, natural gas and chemicals units helped to offset weaknesses in the downstream oil and coal operation, and allow the group to "meet expectations".

The upstream oil and natural gas division contributed A\$318m after tax but before interest charges. This compared with A\$184m in the previous year, but was struck after including a \$141m profit on the sale of the 5.76 per cent

indirect interest in Woodside. Shell said higher gas sales and increased crude oil production in certain areas offset the impact of lower oil prices.

The downstream oil business and chemicals made A\$162m, against A\$101m in 1993, with chemicals moving from a small loss to a A\$12m profit. The coal division saw its contribution fall to A\$30m from A\$68m, due to lower prices.

Mr Ric Charlton, group chief executive, said the underlying rate of return remained unsatisfactory in the core businesses.



YOUR HEALTH IS OUR CONCERN

Net earnings for the year 1994, excluding non-operating items, reached FRF 1.328 billion, an increase of 13% over 1993. Including non-operating items, net earnings amounted to FRF 1.505 billion.

(in millions of FRF)	1994	1993	% Variation
Net sales	26,105	23,501	+11%
R&D Costs	2,624	2,299	+14%
Operating Margin	2,838	2,453	+16%
Net earnings excluding non-operating items	1,328	1,173	+13%
Net earnings	1,505	823	+83%

In 1994, Sanofi bolstered its healthcare business and divested most of its Bio-Activities segment, whilst improving the company's profitability.

The year was marked by:

- the acquisition of Sterling Winthrop's prescription pharmaceuticals business, consolidated from October 1, 1994, enabling Sanofi to enhance its global market position and establish a direct presence in the US market.

- the divestment of the Bio-Activities segment; the sale of the veterinary products business in the Americas and Asia is currently being finalized.

The 13% rise in consolidated net earnings before non-operating items to FRF 1.328 billion is attributable to the good performance of the Human Healthcare segment and of Yves Saint Laurent, and to the continued growth of Yves Rocher.

The consequences of the divestment of the Bio-Activities segment and the sale of certain perfumes and beauty products brands also enabled Sanofi to register net profits (non-operating items net of taxes) of FRF 1.505 billion, up from FRF 823 million in 1993.

Net earnings for the year thus reached FRF 1.505 billion, up from FRF 823 million in 1993.

Analysis by segment

• Sales by the Human Healthcare segment rose by 17.7% to FRF 14.8 billion. Taking into

account an 18.7% increase in R&D expenditure, operating margin for the segment rose to FRF 2.511 billion, up from FRF 1.917 billion in 1993.

■ In the Perfumes and Beauty Products segment, sales rose by 18.4% to FRF 4.5 billion. It was decided to focus activity on major brands by divesting smaller brands, and to ensure more selective distribution.

Given the impact of these elements, operating margin for the segment amounted to FRF 301 million, against FRF 463 million in 1993.

■ The Bio-Activities segment generated sales of FRF 6.8 billion in 1994. Operating margin for the segment reached FRF 439 million against FRF 503 million in 1993.

■ The sizeable increase in the contribution of associated companies to consolidated income (FRF 257 million against FRF 151 million in 1993) was attributable to Yves Rocher's very good performance and the recovery staged by Nina Ricci.

Investments and Financial Position

Total sources reached FRF 7.8 billion in 1994, whereas investments amounted to FRF 8.1 billion, including FRF 6.5 billion for the acquisition of Sterling Winthrop's prescription pharmaceuticals business.

These factors, combined with rigorous management of working capital, enabled Sanofi to end the year with a low net debt-to-equity ratio of 23.1%, against 19.4% at the end of 1993.

Earnings per share

Net earnings per share before non-operating items rose to FRF 14.79, up by 3.2% over 1993. Including non-operating items, net earnings per share rose to FRF 16.77 against FRF 10.06 in 1993.

Final dividend recommendation

At the Annual General Meeting of Shareholders, to be held on June 7, 1995, the Board of Directors will propose to maintain the net dividend per share at FRF 6.

A SUBSTANTIAL INCREASE IN EARNINGS

Bonus share issue

At the end of this exceptional year for the Company, the Board of Directors adopted the principle of distributing one bonus share for every 10 shares held on January 1, 1995.

A forthcoming meeting of the Board of Directors will decide on the practical implementation of the operation.

BOLIVIA
MINISTERIO SIN CARTERA RESPONSABLE DE CAPITALIZACION
SECOND NOTICEANNOUNCEMENT OF THE INTERNATIONAL PUBLIC BID FOR THE CAPITALIZATION OF ENTEL BOLIVIA
REF. MC-02/95

TERMS OF REFERENCE FOR PRE-SELECTION BASED ON MERITS AND EXPERIENCE
The Ministerio Sin Cartera Responsable de Capitalización (the "Ministry"), in accordance with the provisions established in Law No. 1544 dated March 21, 1994 (the "Capitalization Law"), and the SAFCO Law No. 1178 dated July 30, 1990 (the "SAFCO Law"), and their respective regulations, invites the general public to an international public bid (the "Tender") for the pre-selection of bidders and the subsequent subscription of shares of the Empresa Nacional de Telecomunicaciones (ENTEL).

The Tender will consist of two stages. The first stage will be the pre-selection of prospective bidders and the second stage will be the submission of economic offers by the pre-selected bidders.

Any person or entity, individually or collectively, national or foreign, that shows that it is an operator or is related to one as defined in the Terms of Reference, may present a pre-selection submission.

Volume of Operations Requirements

Provision of telephone services to more than the number of principal lines in service as defined in the Terms of Reference, or annual revenues in excess of a minimum amount established in the Terms of Reference, or annual revenues in excess of a minimum amount established in the Terms of Reference, resulting from the rendering of these services.

Quality of service Requirements

Compliance with the percentages required in the Terms of Reference with respect to the following items: repair of malfunctions within 24 hours from receiving the first request for service, long distance telephone calls completed and restoration to new telephone users within 30 days from when solicited.

Financial and other Requirements

Documents to be presented with the pre-selection submission include but are not limited to the following:
- Letter of intent to participate in the pre-selection process.
- Due authorization of personnel.
- Reports and audited financial statements for the last three fiscal years.
- Credit ratings for long and short term debt according to Moody's or Standard and Poor's, as set forth in the Terms of Reference.
- Sworn statement regarding the financial condition of the bidder, as set forth in the Terms of Reference.

The bidders may formulate questions to the Ministry in connection to the pre-selection, up until and including April 17, 1995.

Place of acquisition for the Terms of Reference
The "Terms of Reference for the Pre-Selection based on Merits and Experience" may be obtained beginning March 22, 1995 in the offices of the Ministry, located at Avenida Mariscal Santa Cruz, Palacio de Comunicaciones, piso 17, La Paz-Bolivia, between 9:00am and 6:00pm. The telephone number is (591-2) 368-819 and the facsimile number is (591-2) 374-425.

Pre-selection Submissions
Pre-selection submissions will be received at the address indicated above until 6:00pm, on April 21, 1995. The envelopes will be opened at the offices of the Ministry, at the address mentioned above, on April 21, 1995 at 6:30 pm.

Price of Terms of Reference
Twenty thousand (20,000) US Dollars (Bs. 20,000,000) paid in bolivianos at the official exchange rate on the day of purchase. For these purposes the special account No. 08-D-827 carrying the name "Ministerio de Capitalización" has been opened in Banco Santa Cruz S.A., Avenida Camacho No. 1448 Telephone: (591-2) 370481 and Facsimile (591-2) 358259/369279, La Paz - Bolivia.
For more information, call the Ministry at (591-2) 368-819 or send a facsimile to (591-2) 374-425.

La Paz, March, 1995
MINISTERIO SIN CARTERA RESPONSABLE DE CAPITALIZACION

BOLIVIA
MINISTERIO SIN CARTERA RESPONSABLE DE CAPITALIZACION
SECOND NOTICEANNOUNCEMENT OF THE INTERNATIONAL PUBLIC BID FOR THE CAPITALIZATION OF ENDE BOLIVIA
REF. MC-01/95

TERMS OF REFERENCE FOR QUALIFICATION BASED ON MERITS AND EXPERIENCE
The Ministerio sin Cartera Responsable de Capitalización (the "Ministry"), in accordance with the provisions of the Capitalization Law No. 1544 dated March 21, 1994 (the "Capitalization Law") and the SAFCO Law No. 1178 dated July 30, 1990 (the "SAFCO Law") and their respective regulations, announces to the general public the international Public Bid (the "Tender") for the qualification and the subsequent subscription for 50% shareholdings in Empresa Corani S.A.M., Empresa Otuquis S.A.M. and Empresa Valle Hermoso S.A.M. (together the "Generators"), being formed from the Empresa Nacional de Electricidad S.A. ("ENDE" S.A.).

The Tender will consist of two stages. The first stage will be the qualification of prospective bidders and the second will be the submission of economic offers by qualified bidders.

In July, 1994, the Ministry reviewed the submissions of parties interested in the Tender and classified 31 such parties, listed below, as pre-selected companies (the "Pre-Selected Companies").

1. AES AMERICAS INC.
2. BHP POWER INC.
3. CENTRAL AND SOUTH WEST CORPORATION
4. CHILECTRA S.A.
5. CHILGENER
6. CMS GENERATION
7. COMMUNITY ENERGY ALTERNATIVES INCORPORATED
8. CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
9. CONSOLIDATED HYDRO, INC.
10. CONSTELLATION ENERGY INC.
11. COMPAÑIA BOLIVIANA DE ENERGIA ELECTRICA S.A.
12. COBER BPC
13. DISTRIC ENERGY INC.
14. DOMINION ENERGY, INC.
15. ENERGY INITIATIVES, INC.
16. ENRON DEVELOPMENT CORP.
17. ENTERGY POWER DEVELOPMENT CORPORATION
18. EMPRESA NACIONAL DE ELECTRICIDAD S.A. - ENDESA
19. FALCON SEABOARD POWER CORPORATION
20. GESTION ELECTRICA EMPRESARIAL S.A.
21. HOUSTON INDUSTRIES ENERGY INC.
22. IBERDROLA S.A.
23. LG & E POWER DEVELOPMENT INC.
24. LIBERTY POWER LATIN AMERICA/COGENTRIX
25. O'BRIEN ENVIRONMENTAL ENERGY
26. ONTARIO HYDRO INTERNATIONAL INC.
27. SADE INGENIERIA Y CONSTRUCCIONES S.A.
28. SOUTHERN ELECTRIC INTERNATIONAL CHILE
29. TAUERNKRAFTWERKE A.G.
30. THE NATIONAL GRID COMPANY PLC
31. TRACTEBEL S.A.
32. WESTCOAST ENERGY INTERNATIONAL INC.

Qualification submissions will only be accepted from Pre-Selected Companies or their affiliates or groups containing Pre-Selected Companies or their affiliates. Each qualification submission must evidence satisfaction of the criteria contained in the Terms of Reference for Qualification based on Merits and Experience (the "Terms of Reference"), which are summarized below.

Each bidding group must contain an operator which meets the following criteria:
- general experience in the electricity generating industry;
- specific experience owning and operating one or more substantial hydro or thermal power plants
- a minimum generating efficiency
- a minimum net worth
- and maximum total asset to equity ratio.

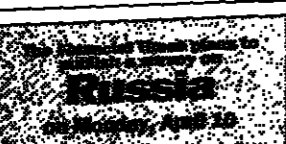
Additionally, the combined net worth of the operator together with certain other specified members of the bidding group must meet or exceed a minimum level.

Date and Place of Presentation of Qualification Submissions:
Qualification submissions will be received at the address indicated below until 6:00 p.m. May 2, 1995, and opened immediately thereafter.

Date and Place of acquisition of the Terms of Reference:
The Terms of Reference may be obtained at the offices of the Ministry located at Avenida Mariscal Santa Cruz, Palacio de Comunicaciones, Floor 17, La Paz Bolivia, between 9:00 a.m. and 6:30 p.m. from 31 March 1995 to the day immediately preceding the final date for the filing of qualification submissions. The telephone number is (591-2) 355388 and the facsimile number is (591) 812823.

Price of Terms of Reference:
US\$ 5,000 (Five Thousand US Dollars) paid in bolivianos at the official exchange rate on the day of purchase. For these purposes the special account No 08 - D - 827 carrying the name "Ministerio de Capitalización" has been opened in Banco Santa Cruz S.A., Avenida Camacho No. 1448 La Paz, Bolivia. Telephone: (591-2) 370481 and Facsimile (591-2) 358259/369279, La Paz - Bolivia.

La Paz, March, 1995
MINISTERIO SIN CARTERA RESPONSABLE DE CAPITALIZACION



The survey will be distributed at the EBRD meeting in London and discuss the economy, foreign investment, oil & gas, agriculture etc. It will be distributed with the FT on that day and read by leading decision makers in over 150 countries worldwide.

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COMPANY NEWS: UK

Cruise activities rise on back of strong US business

Shipping divisions lift P&O

By Geoff Dyer

An improved performance from its three main shipping businesses allowed Peninsular & Oriental Steam Navigation Company to announce a 20 per cent increase in operating profits in 1994.

Pre-tax profits at the shipping, transport and property group fell from £520.6m to £349.5m (£573m), but last year's figures included exceptional profits of £276.4m from the sale of businesses and fixed assets. The 1994 results included exceptional profits of £5.1m.

Turnover was 5 per cent higher at £5.99bn (£5.72bn), however the fixed cost nature

of the shipping businesses meant operating profits rose to £477.3m (£396.3m).

Lord Sterling, chairman, said: "We have made major capital expenditure to support our companies and it is pleasing to see the returns coming through."

Despite the Channel Tunnel, the ferries division recorded a 17 per cent increase in passenger numbers and operating profit improved by 49 per cent to £113.9m (£76.5m), with 70 per cent of profits coming from the Dover-Calais route.

P&O said that in the first two months of the year the freight market had expanded by 10 per cent while the

group's operations had been unchanged. The passenger market was 14 per cent ahead but P&O was down 4 per cent.

Lord Sterling said that the Channel Tunnel would have some impact on the ferry division's earnings. However, analysts did not share his optimism that the growth of the market as a whole would cushion the impact on P&O, and are predicting a fall in profits from the division to £60m.

P&O Cruises increased operating profit to £100.1m (£85.6m), with the US business particularly strong. Lord Sterling said that due to demographic trends and increasing early retirement, "there are a

lot of people with the time and money to go on cruises".

The container business improved profits to £63.2m (£42m) on sharply higher volumes. The group believes that higher rates at the end of the year will lead to the bulk shipping business, which saw losses increase to £1.7m, returning to profitability.

Bovis Homes saw only a modest increase in profits to £13.2m (£11.2m), although the group said that this year had started well. Bovis Construction advanced to £11m (£10.2m). Profits from investment property fell to £96.5m (£104.8m).

See Lex

Nurding merger plan by Makro

By Peggy Hollinger

SHV Makro, the private Dutch wholesaler, yesterday ended years of speculation by declaring its interest in taking control of Nurding & Peacock, one of Britain's largest cash and carry companies, in which it holds a 14 per cent stake.

However, it has ruled out making a full bid. "We have better investments to make," said Mr Folkert Schukken, Makro chairman.

Makro is offering to merge its mainly non-food UK cash and carry operations with Nurding in exchange for a holding of more than 50 per cent. It is also suggesting a special payment to shareholders, which Mr Schukken said could be as much as 19.5p, three times the annual dividend.

Nurding's board rejected Makro's approach as unacceptable. "We note the extremely informal nature of the approach," said Mr Richard Purford, Nurding's chairman. "But our shareholders would be very surprised if the board recommended something which left them minority shareholders in a foreign, private company without getting a control premium."

Makro, which has some 100 cash and carry outlets around the world and sales of more than £5bn, has held a stake in Nurding & Peacock since 1989.

Exceptional gains help Taylor Woodrow advance

By Andrew Taylor, Construction Correspondent

An £8m gain from the sale of nearly all its shares in the Channel Tunnel helped Taylor Woodrow, the construction and property group, increase pre-tax profits 68 per cent from £30.2m to £50.8m for 1994.

The pre-tax result also included £4m profits from property disposals. The market, however, was disappointed by the 5 per cent fall in operating profits to £45.2m (£47.7m), and the shares slipped 7½p to 115½p. Turnover was flat at £1.146bn (£1.149bn).

Interest payable was reduced to £8.5m (£16.1m).

Mr David Green, finance director, said the company had made a provision of £20m to cover potential losses on the Channel Tunnel contract.

The group received the Euro-tunnel shares as a member of the consortium that built the Channel Tunnel in part-payment for construction work. It sold 25m of shares in the first half. Euro-tunnel shares traded at above 40p for the first four months of 1994, compared with 24p yesterday.

The gain on the share sale turned a £4m loss in the con-



Colin Parsons: expects progress to continue in present year

struction division into a £4m profit, compared with a £1.3m profit last time. All of 1994's losses were in the UK contracting business, which is being reorganised.

More than 40 per cent of group profits were generated by housebuilding in the UK, US, Canada and Australia, where combined profits more than doubled to £21m (£9m). Group purchases of housing land rose to £100m (£38m), much of this in the US.

Mr Colin Parsons, chairman, said: "We expect our progress to continue in the current financial year, although a degree of caution is needed in view of political and economic uncertainties."

Net debt fell from £118m to £107m, reducing gearing from 31.7 to 20.7 per cent, despite more spending on land and a share buy-back scheme which reduced the group's share capital by 8 per cent and cost £37.3m last year.

Bowthorpe's 29% rise boosts shares

By Tim Burt

Shares in Bowthorpe rose 15½p to 318½p yesterday after the acquisitive electronic components group announced a 29 per cent increase in profits.

Buoyant demand for sensors and environmental control equipment helped lift pre-tax profits from £51.1m to £65.8m as turnover increased 25 per cent to £417.6m (£334.3m).

The company, however, sounded a note of caution by warning that signs of an economic slowdown in the UK and the US - two of its main markets - could hamper similar growth this year.

"We've been told activity is

slowing in these markets and although we expect to make progress, it will be tough to repeat last year's performance," said Mr Colin McCarthy, finance director.

The company said it would cut costs and planned to use its £40.1m cash reserves to make further acquisitions. Profit margins rose slightly to 15.3 per cent and Mr McCarthy said there was room for improvement, although a return to the 1991 peak of 16.8 per cent was unlikely.

Last year's advance was fuelled by increasing demand in the electronics division, where contributions from acquisitions helped lift profits

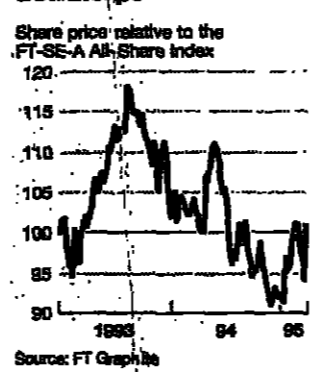
by 27 per cent to £43.7m.

The electrical sector, meanwhile, saw profits grow by 24 per cent to £22.4m, thanks in part to increasing exports of surge protection equipment.

Earnings per share rose from 17.89p to 19.57p on an increased tax charge of 35 (32) pence.

The company proposed a 25 per cent increase in the final dividend to 6.25p (5.03p), taking the total to 8.25p (5.51p). It also announced a boardroom shake-up involving the retirements later this year of Mr John Westhead as chief executive and Mr Walter Bourne as chief operating officer. It is believed the company has appointed a new chief

executive from within the industry.



Sheehy's pay falls to £200,000

The total remuneration of Sir Patrick Sheehy, chairman of BAT Industries, the tobacco and financial services group, fell to £196,797 last year compared with £266,181 in 1993 when, for part of the year, he was still chief executive, writes Roderick Oram.

Pay for Mr Martin Broughton, who took over as chief executive, rose from £476,490 to £603,028, including a £176,400 bonus.

The highest paid director was Dr George Greener, chief executive of UK financial services. His total remuneration fell from £776,079 to £703,261, including a bonus of £187,760.

Marley to finance acquisition of Syroco with £52m rights

By Andrew Taylor, Construction Correspondent

The share price of Marley slipped 11½p to 122½p yesterday after the building products and automotive components group announced the £140m acquisition of Syroco, a US manufacturer of plastic garden furniture.

The purchase will be partly funded by a £51.8m rights issue on a 1-for-6 basis at 112p per share.

Mr Howard Seymour, construction analyst with broker BZW, said: "The fall in the share price reflected concern that the US economy is slowing, while the company has

warned that sharp rises in polypropylene prices will cause margins on plastic furniture to dip steeply this year."

Syroco, a subsidiary of Syra-tech, the US furniture and consumer products group, controls 25 per cent of the growing US market for plastic garden and casual furniture.

US sales of plastic furniture had grown more than 8 per cent a year over the past five years, said Mr David Trappell, Marley's chief executive. Since it became widely available in the mid 1980s, plastic furniture had captured about 38 per cent of the US casual market from traditional wood and aluminium products.

This compared with market share of 70 per cent in continental European countries such as the Netherlands, France and Italy and leaves plenty of room for growth.

Syroco's pre-tax profits rose 17 per cent last year to £15.7m on sales of \$95.5m (\$87.3m). About 75 per cent of its products were pre-sold to mass-merchandise stores such as Wal-Mart.

Polypropylene prices since August - after most of the deals had been agreed - had risen by about 50 per cent. The acquisition was therefore likely to dilute Marley's earnings "slightly" in 1995 but would be earnings enhancing the following year.

Welsh Water makes £6.5m Czech buy

By Vincent Boland in Prague

Welsh Water International has bought an 11.3 per cent stake in the Czech Republic's biggest sewer and sewerage company and said it had received approval from the government to buy an additional 20 per cent, in its first venture into central Europe.

WWI bought the 11.3 per cent stake in Severočeská vodovody a kanalizace (SCVK) from private Czech investors. WWI's total investment is believed to be about £6.5m.

Northern considers EGM response

By David Wighton

Northern Electric said yesterday it was "considering a response" to dissident shareholders who have threatened to call an extraordinary general meeting if the board does not enter negotiations with Trafalgar House.

Northern yesterday received a strongly worded letter from Wyser-Pratte, a US arbitrage firm which owns 800,000 shares, criticising the defence it used to fend off Trafalgar House's original £1.3bn bid.

The electricity regulator Professor Stephen Littlechild cited Northern's £500m package of shareholder benefits as one factor behind his decision to re-examine the industry's pricing regime.

In a statement last Friday, Prof Littlechild said that the defence document "contained

USAir said to be near agreement with unions

Sir Colin Marshall, chairman of British Airways, said yesterday that USAir, his company's troubled partner, could reach agreement with all its unions within seven days and possibly by this weekend, writes Michael Skapinker.

USAir, in which BA has a 24.6 per cent stake, said on Saturday that it had made a breakthrough in talks with its pilots, the most recalcitrant of the four unions. The pilots are thought to have accepted a 20 per cent pay cut in return for profit-sharing and representation on the board.

However, Sir Colin said he could not yet reveal the details of the agreement and repeated USAir's warnings that there was still some way to go.

Amersham sale

Amersham International, the health science group, is selling its 14.9 per cent stake in Northern International, a Canadian isotope manufacturer, to Canada's MDS Health Group for £517.6m. MDS will then own 98 per cent of Northern. The price will be satisfied in the form of a 6-month interest bearing promissory note.

Sears joint venture

Sears is terminating its continental European retailing joint venture - Sears Andre Retail Group.

Groupe Andre, its joint venture partner, is buying Andre Deutschland from SARG for £4m, while Sears is purchasing Groupe Andre's 50 per cent of the business for £38m, giving Sears full control.

Sears will transfer some £38m of goodwill to reserves as a consequence of the deal and SARG will receive £38m from Andre Deutschland to settle intercompany debt.

OmniMedia placing

OmniMedia has raised £2.3m through an institutional placing of 3.6m shares at 64p each. It has also established an ADR programme on the OTC market in the US and is considering a Nasdaq listing and/or an initial public offering there within the next six months.

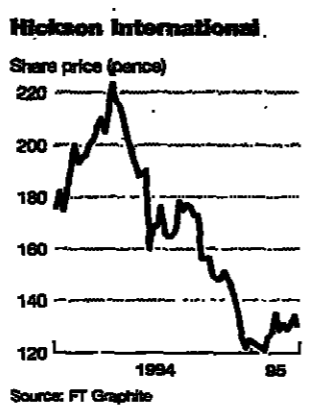
Hickson and Unilever settle over lost Persil contract

By Motoko Rich

Hickson International, the specialty chemicals company, yesterday accompanied a 13 per cent fall in pre-tax profits with news that it had reached agreement with Unilever on compensation following the Anglo-Dutch group's decision to stop buying the manganese catalyst used in Persil Power.

Pre-tax profits slipped from £22.1m to £19.2m on turnover up 6.7 per cent to £393.1m. Profits were dampened by rationalisation costs of £4.5m, which offset a £1.5m credit for insurance settlements.

The company would not say how much it had received from Lever Brothers, Unilever's UK detergents subsidiary. It is understood that the payment



resumption of earnings at PharmsChem prompted the company to cut its final dividend from 5.15p to 2.15p, making a total of 5p (8p). Shares in the company fell 4p to 131p.

In the nine months when Hickson was producing it, the Unilever catalyst helped push operating profits in the fine chemicals division up by 8 per cent from £12.6m to £13.6m.

Raw material price rises squeezed margins in the performance products division and protections and coatings.


The company also announced the resignation of Mr Michael Rowley as finance director. Three candidates were being considered to replace him.

It is believed he left because of differences with the board.

RESULTS

		Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends corresponding dividend	Total for year	Total last year
Arcoelectric	Yr to Dec 31	13.5	(11.8)	1.01	(4.03)	10.44	(5.57)	0.86	1.385
Aston (BSR)	Yr to Dec 31	312.2	(291.4)	21	(14.8)	5.86	(4.16)	0.5	1.2
Badgerline	Yr to Dec 31	224.5	(317.7)	16.7	(83.8)	8.9	(8.9)	0.5	4.5
Black (AMC)	Yr to Dec 31	8.4	(0.507)	0.507	28.4	(22)	(22)	9.25	14
Bowthorpe	Yr to Dec 31	417.6	(334.3)	65.9	(51.1)	18.57	(17.89)	6.29	6.25
Bridport-Sunday	6 mths to Jan 31	13.2	(13.7)	0.35	(22.4)	2.03	(2.44)	1.38	1.25
British Estate	Yr to Dec 31	70.1	(60.2)	32.6	(30.5)	10.84	(11.68)	5.45	5.175
Bromfield	Yr to Dec 31	1.9	(1.56)	0.496	(0.507)	2.2	(1.56)	0.81	0.75
Burn Stewart	6 mths to Jan 31	23.7	(19.5)	1.49	(15.9)	1.73	(2.08)	1.7	1.7
ESC	Yr to Dec 31	54.3	(57.6)	5.03	(4.83)	39.98	(4.85)	0.5	2.25
F&B	Yr to Dec 31	119.9	(110.1)	13.3	(13.3)	22.73	(21.74)	3.275	5.85
Geal Petroleum	Yr to Dec 31	43.7	(42.4)	4.155	(6.155)	3.05	(3.79)	1.5	1.45
Golden Vale	Yr to Dec 31	507.3	(432.2)	12.8	(19)	6.53	(6.52)	1.53	2.05
Grain Processing	Yr to Dec 31	10.28	(4.38)	2.76	(0.94)	1.36	(1.07)	0.4	0.4
Hickson Int	Yr to Dec 31	383.1	(388.3)	19.27	(22.1)	8.9	(10)	5.15	7.95
Hobson	Yr to Dec 31	173.7	(1.8)	11.2	(1.1)	3.02	(1.18)	-	-
Hodder Headline	Yr to Dec 31	80.8	(51.7)	8.15	(6.1)	15.7	(6.2)	3.35	6
Isotec	Yr to Dec 31	130.2	(118.2)	70.2	(85.2)	4.4	(5.52)	2.8	4.2
Interlounge Tech	6 mths to Dec 31	3.41	(4.68)	0.342	(0.349)	16.71	(16.52)	2	2
ISC	Yr to Dec 31	77.8	(60.5)	10.1	(43.1)	20.4	(183)	5	5.5
Joyce	Yr to Dec 31	108.1	(114.3)	4.16	(1.71)	16.21	(6)	4.8	3.3
Lawson	Yr to Dec 31	142.9	(136.1)	9.08	(11.4)	20.13	(25.57)	9.15	12.5
Lloyd Thompson	6 mths to Dec 31	21.3	(20.2)	9.15	(8.5)	7.75	(6.77)	2.75	2.4
Lopus	Yr to Dec 31	145	(142.4)	0.88	(0.5)	2.75	(0.3)	0.25	0.25
Macfarlane	Yr to Dec 31	116.9	(98.7)	16.3	(12.7)	13.78	(11.25)	3	2.4
Manchester United	6 mths to Jan 31	36.4	(22.8)	7.33	(7.81)	8.3	(8.6)	1.4	1.3
Mace S	Yr to Dec 31	55.4	(64.2)	2.25	(1.58)	20.18	(7.17)	2	3
P&O	Yr to Dec 31	589.0	(97.1)	349.59	(50.69)	38.5	(8)	17	30.5
Robur	Yr to Dec 31	77.11	(70.8)	14	(12.9)	10.01	(6.38)	2.9	2.5
Scott Metro Property	6 mths to Feb 15	9.48	(8.68)	4.08	(7.18)	2.88	(5.19)	1	0.5
Servomat	Yr to Dec 31	22.2	(22.7)	2.34	(1.52)	15.2	(8.4)	4.9	4.5
Taylor Woodrow	Yr to Dec 31	1,146	(115)	50.99	(32.2)	7.8	(4.1)	1.5	2.25
UCC	6 mths to Jan 31	25.6	(23.1)	2.82	(1.85)	6.4	(4.25)	2.22	2.22
Wace	Yr to Dec 31	323.5	(335.9)	23.1	(15.9)	501	(11.6)	3.75	2.5

Dividends shown net. Figures in brackets are for corresponding period, 10% increased capital. S&P stock. After exceptional credit. All Gross rental income. British currency. □ Net rental income. *Net income. *Comparative for 6 mths to Dec 31 1993. S&P profit.



Year-end Report 1994

SCA in brief, SEK M	1994	1993
Net sales	33,676	33,420
Earnings after financial net	1,060	1,210
Ditto excl non-recurring items	2,280	1,185
Net earnings	555	1,071
Earnings per share after tax, SEK	2.94	5.82
Ditto excl non-recurring items, SEK	7.56	5.73
Dividend, proposed, SEK	3.75	3.40
Capital expenditures	2,976	1,553
Shareholders' equity incl minority interest	20,443	20,879
Net cash flow	-155	3,209
Equity/assets ratio, percent	46	47
Debt/equity ratio, times	0.52	0.52
Number of employees, average	24,152	26,661

Forecast 1995
Earnings after financial net are expected to amount to SEK 4.5 - 5.0 billion corresponding to approx SEK 15 per share after tax. Net sales is estimated to amount to approx SEK 63 billion.

A complete report can be ordered from SCA Corporate Communications, telephone +46 8-788 51 00, telefax +46 8-678 81 30, or from the address below.

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ANNUAL RESULTS 1994

	1994	1993
Net Rental Income	£70.0m	£80.2m
Investment Profit*	£32.14m	£30.48m
Profit before Taxation	£32.58m	£30.48m
Adjusted Earnings per share*	10.65p	11.66p
Earnings per share	10.84p	11.66p
Net Asset Value	202p	192p
Value of Investment Properties	£900m	£806m

* Excluding profit on sale of properties

- 16.3% increase in net rental income.
- 5.4% increase in investment profit.
- 6.9% increase in profit before tax.
- 5.2% increase in net asset value per share.
- Final dividend of 5.45p per Ordinary Share proposed, making a total dividend for the year of 8.40p per share - an increase of 5%

The above figures constitute an abridged version of the year's results. The accounts, which carry an unqualified audit report, will be sent to shareholders on 28th April and copies may be obtained from the Company Secretary at the Registered Office of the Company, 22-24 Dry Place, London, EC1N 8TG. They will be filed with the Registrar of Companies following the Annual General Meeting to be held on 12th June 1995.

COMMODITIES AND AGRICULTURE

LME's copper warehouse plan worries US regulator

By Laurie Morse in Chicago

The US Commodity Futures Trading Commission, concerned that the London Metal Exchange's plans to open US copper delivery warehouses could expose the US copper market to "potential market disruptions," has asked the LME to prepare a market impact analysis, and said that co-operation between US and UK regulators may have to be broadened in light of the copper market overlap.

The concerns, expressed in a three-page letter written by Mrs Mary Schapiro, CFTC chairwoman, to Mr R.R. Rogel, LME chairman, on March 24, come just days before the LME had planned to certify the US delivery points for its London-traded copper futures contract. The US delivery points will put the LME in direct competition

with the Comex division of the New York Mercantile Exchange, which also trades copper futures for US delivery.

Mr David King, LME chief executive, declined to comment on whether the last-minute CFTC intervention would delay the planned April 1 designation of the LME's four US copper warehouses. The London exchange first announced its plans to allow US deliveries against its copper futures on November 1, 1994.

"It has always been our contention that opening warehouses in the US won't result in the demise of the Nymex (or Comex) copper contract, rather that the establishment of good delivery points in the USA will benefit US copper industry as a whole," Mr King said.

"We have warehouses for delivery of all of our other metals in the USA, and to date we

haven't experienced any particular problems," he said. Nevertheless, he confirmed that LME officials would meet senior CFTC staff in London this week to discuss the copper delivery issues.

Until last week, it appeared the CFTC would remain aloof from the Nymex/LME copper futures battle. However, in her letter, Mrs Schapiro made it clear that the Barings crisis has heightened CFTC concern about the cross-border reach of certain futures contracts. "The recent collapse of Barings PLC underscores the importance that the LME and its UK regulators assure the commission that adequate arrangements are in place to inform the commission of actions which may be taken by the LME or UK regulators to address various types of potential market disruptions," she wrote.

Palladium price surge sparks substitution

By Richard Mooney

The Palladium price has been trimmed back this week from its recent six-year high, but not before this month's 14 per cent surge had produced the first sign of the substitution traders feared would result.

The London price, which peaked on Friday morning at \$175.85 a troy ounce, was "fixed" yesterday afternoon at \$167.25, down 50 on the day.

Earlier, however, Kycroa Corporation, a leading comprehensive ceramics maker, told the Reuters news agency in Tokyo that it planned drastically to cut palladium usage in its condensers and use cheaper substitutes, "such as nickel, silver and copper instead."

The Japanese electronics industry, which uses the precious metal in multi-layer ceramic capacitors for items like mobile telephones, personal computers and wide-screen televisions - all booming markets - accounts for nearly a third of global palladium demand.

Fears of substitution were believed to have resulted in Russia, the biggest producer, capping a rise to \$180 an ounce last autumn by selling from its stockpile. When that level was breached in the middle of this month it became clear that Russia had either raised or abandoned its "ceiling" and speculators piled into the market. Bullish analysts suggested that the strength of the yen against the US dollar meant that all that high to Japanese users and did not rule out a further rise through \$180, a level last seen 14 years ago.

But plans to substitute cheaper metals have been spreading through the Japanese electronics industry in recent years - the palladium price has doubled since 1992. And Kycroa said its decision was made in reaction to the latest surge.

Net gains for Norwegian fish farming

By Karen Fosell in Oslo

Meanwhile, production of Atlantic halibut juveniles continued to increase almost exponentially and in 1994 was greater than demand. "Still the major part of the fry production is based on natural zooplankton harvested from highly-productive lagoons, but a network of farmers was established along the west coast of Norway. Though only one hatchery was producing spat (spawn), 1994 production figures were promising at a count of 700,000 of between 5mm and 15mm. Further development of the scallop industry was influenced by the time of release and genetic groupings. In the 1993 release, total recapture of all strains was 2.2 per cent compared with 5 per cent for the best-performing strain. "Some genetic groups within this strain had recapture rates as high as 10 per cent. Also the recapture rate of precocious males - maturing in fresh water prior to release - was four to five times higher than for normal smolts," the institute said.

It added that an "enhancement" project for cod was being carried out in open coastal regions, but that the recapture rate had been low. "However, both growth and condition factors have been high for the recaptured fish," it said.

In a large-scale lobster enhancement experiment at Ekvitoy, on the west coast, the proportion of released legal size lobsters in the autumn fishery increased to 20 per cent. The high level of tagged lobsters under legal size in catches, at 56 per cent, indicated a potential for enhancement of lobster stocks, the institute said.

FARMED SALMON PRODUCTION (tonnes)

	1994*	1993	1992	1991	1990	1989
Norway	210,000	170,000	141,000	155,000	158,147	115,433
UK	58,000	45,000	38,000	40,500	32,350	28,553
Canada	38,000	32,000	19,964	13,462	9,513	1,850
Faroes	27,000	21,000	17,700	13,073	9,450	7,145
Ireland	15,000	18,000	16,700	18,000	12,800	7,800
USA	13,000	11,000	8,500	8,400	2,725	1,692
Israel	12,000	11,000	9,600	8,800	7,170	5,068
Others	7,000	7,000	5,635	5,755	4,973	2,735
Total	380,000	315,000	256,899	262,563	236,295	169,709

*estimated

1994 results are promising concerning other food sources, the institute said. Based on the number of juveniles already in farms, it could be assumed that production of farmed halibut was likely to exceed the wild catch in Norway by 1997.

King Scallop farming was also developing, and last year, depended on capital input to a transition zone between science and commercial production, the institute warned. Last year the Push sea-ranching programme focussed on the recapture of species released in earlier years. In the coastal salmon ranching project, the rate of returning fish

Old news galvanises aluminium

London Metal Exchange aluminium prices jumped yesterday morning on reports of a production cut at a Germany smelter. But after the three months delivery position peaked at \$1,875 a tonne it emerged that the news was only confirmation of a planned closure announced three months ago and the market fell back. The three months position closed at \$1,862.50, up just \$1.50 on the day.

The company concerned was VAW Aluminium, part of the VAW group, whose supervisory board yesterday approved the closure of the aluminium electrolysis plant at the company's Toeging smelter. VAW said last December that it planned to close the smelter at the end of 1995 and convert the unit into a casting plant.

Toeging has an annual capacity of 90,000 tonnes of primary aluminium but last year only produced 30,000 tonnes after a number of production cuts in recent years. Nevertheless its total closure will

reduce VAW's total primary capacity by 22 per cent.

Meanwhile, Norsk Hydro, Norway's main aluminium producer, said it would maintain its output curbs at least until end-1995, reports Reuters from Oslo.

Under an international memorandum of understanding Hydro last May cut its output by more than 10 per cent of total capacity, or 70,000 tonnes annually. At the time it said the cuts would last between 18 and 24 months.

"For us it is realistic to maintain production curbs at least until the end of the year," said Mr Dag Flaas, president of Hydro Aluminium. He declined to say when Hydro would

increase its output.

The memorandum of understanding the European Union, the US, Canada, Russia, Norway and Australia agreed to cut production over two years to reduce an aluminium glut and boost prices. "I'm pretty optimistic for the rest of 1995. Major producers have shown no sign of revising their policies," Mr Flaas said.

But a Russian official earlier this month said that Russia's annualised aluminium output cuts had fallen to 150,000 tonnes in January from last September's 289,000-tonne peak. And Spain's Inesap recently announced it was reactivating 37,000 tonnes of capacity idled last April.

Nevertheless stocks of the metal in LME registered warehouses have continued to tumble. A 15,150-tonne fall announced yesterday took this month's drawdown to 204,700 tonnes, or 14.5 per cent of the total, which is now down 54 per cent from the all-time high reached last summer.

US cotton planting boom forecast

Record-breaking cotton prices and continuing strong demand would encourage US growers to plant significantly more cotton this year, said US analysts, reports Reuters from New York.

They expected that the US Department of Agriculture planting intentions survey to be published on Friday would show cotton growers planting 16m and 17m acres this year, up from 13.7m in 1994-95.

"We're hearing people want to tear up their backyards and plant cotton," said Mr Sharon Johnson, analyst with Frank Schneider and Company.

Cotton prices soared from October to earlier this month. In February, they passed \$1 a pound for the first time since the US Civil War as world production problems left the US

the only country with high-quality cotton available for immediate delivery.

Ms Johnson put planting intentions at 16.1m acres, with the biggest rises in Texas and Georgia, which would increase by 900,000 and 455,000 acres respectively.

She sees 300,000-acre increases in Mississippi, Louisiana and Arkansas, and predicts two-thirds of the cotton acreage rises will come from those five states.

She cautioned, however, that weather was an important unknown variable. "There's a quarter to half a million acres at risk depending on Mother Nature. It needs sufficient rain and marginal land needs proper rain and nutrients."

Mr Carl Anderson, cotton marketing specialist at Texas A&M University, projected

planting intentions at 16m acres but believed the area could easily reach 16.5m or even 17m. He said the survey might not fully account for growers switching to cotton from grains, especially in Texas, due to high prices.

"We have such good contracts based on 80 cents and above for the farmer that they've gone out to the fields and ploughed up newly planted grains and planted cotton instead," he said.

Peanuts, maize and soybeans were the principal crops that would be replaced by cotton, according to analysts.

But Mr David Brandon, Jr, senior vice president with Smith Barney, said falling cotton prices might reduce plantings. He predicted planting intentions of 16.33 million acres.

"Cotton prices are going in the wrong direction to get the acreage we need," he said. "[The] December [futures price] is already 4 cents off the highs."

Mr Brandon said the big unknown was Texas, which was suffering the worst drought since 1974. "Hopefully all these little [weather] fronts coming through California will take note of west Texas and get them a little moisture," he said. Growers need rain by the end of May, "at the latest", but he noted he had seen cotton planted as late as July still make a good yield.

Mr Jarral Nepper, a cotton analyst with Calcut, estimated that 16.44m acres would be planted in 1995/96, while Dean Witter's senior analyst Mr Steve Flannery put the figure at 16.62m acres.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amsterdam and London)

ALUMINIUM, 99.7% (per tonne)

	Close	Previous
Close	1862.50	1862.50
Previous	1862.50	1862.50
High/Low	1877/1850	1877/1850
AM Official	1841-2	1841-2
Korb close	1849-50	1849-50
Open int.	215,547	215,547
Total daily turnover	34,556	34,556

ALUMINIUM ALLOY (per tonne)

	Close	Previous
Close	1825-35	1830-40
Previous	1830-40	1830-40
High/Low	1840/1835	1840/1835
AM Official	1825-35	1830-35
Korb close	1830-35	1830-35
Open int.	2,772	2,772
Total daily turnover	1,047	1,047

LEAD (per tonne)

	Close	Previous
Close	890-90	891-4
Previous	890-90	891-4
High/Low	891-4	891-4
AM Official	891-4	891-4
Korb close	891-4	891-4
Open int.	35,304	35,304
Total daily turnover	3,183	3,183

NICKEL (per tonne)

	Close	Previous
Close	7850-80	7790-800
Previous	7790-800	7790-800
High/Low	7850-80	7850-80
AM Official	7850-80	7850-80
Korb close	7850-80	7850-80
Open int.	56,854	56,854
Total daily turnover	9,552	9,552

TIN (per tonne)

	Close	Previous
Close	5750-70	5900-20
Previous	5900-20	5900-20
High/Low	5750-70	5750-70
AM Official	5750-70	5750-70
Korb close	5750-70	5750-70
Open int.	20,102	20,102
Total daily turnover	5,569	5,569

ZINC, special high grade (per tonne)

	Close	Previous
Close	1018-9	1045-8
Previous	1045-8	1045-8
High/Low	1018-9	1018-9
AM Official	1018-9	1018-9
Korb close	1018-9	1018-9
Open int.	57,105	57,105
Total daily turnover	14,509	14,509

COPPER, grade A (per tonne)

	Close	Previous
Close	2949-7	2924-5
Previous	2924-5	2924-5
High/Low	2949-7	2949-7
AM Official	2949-7	2949-7
Korb close	2949-7	2949-7
Open int.	228,982	228,982
Total daily turnover	65,457	65,457

LME Closing 12:15 (per tonne)

	Close	Previous
Close	382.00	382.00
Previous	382.00	382.00
High/Low	382.00	382.00
AM Official	382.00	382.00
Korb close	382.00	382.00
Open int.	381.50-381.80	381.50-381.80
Previous close	381.70-382.10	381.70-382.10

HEATING OIL NYMEX (per barrel)

	Close	Previous
Close	1.40	1.40
Previous	1.40	1.40
High/Low	1.40	1.40
AM Official	1.40	1.40
Korb close	1.40	1.40
Open int.	1.40	1.40
Total daily turnover	1.40	1.40

CRUDE OIL NYMEX (per barrel)

	Close	Previous
Close	18.00	18.00
Previous	18.00	18.00
High/Low	18.00	18.00
AM Official	18.00	18.00
Korb close	18.00	18.00
Open int.	18.00	18.00
Total daily turnover	18.00	18.00

CRUDE OIL NYMEX (per barrel)

	Close	Previous
Close	18.00	18.00
Previous	18.00	18.00
High/Low	18.00	18.00
AM Official	18.00	18.00
Korb close	18.00	18.00
Open int.	18.00	18.00
Total daily turnover	18.00	18.00

CRUDE OIL NYMEX (per barrel)

	Close	Previous
Close	18.00	18.00
Previous	18.00	18.00
High/Low	18.00	18.00
AM Official	18.00	18.00
Korb close	18.00	18.00
Open int.	18.00	18.00
Total daily turnover	18.00	18.00

CRUDE OIL NYMEX (per barrel)

	Close	Previous
Close	18.00	18.00
Previous	18.00	18.00
High/Low	18.00	18.00
AM Official	18.00	18.00
Korb close	18.00	18.00
Open int.	18.00	18.00
Total daily turnover	18.00	18.00

CRUDE OIL NYMEX (per barrel)

	Close	Previous
Close	18.00	18.00
Previous	18.00	18.00
High/Low	18.00	18.00
AM Official	18.00	18.00
Korb close	18.00	18.00
Open int.	18.00	18.00
Total daily turnover	18.00	18.00

CRUDE OIL NYMEX (per barrel)

	Close	Previous
Close	18.00	18.00
Previous	18.00	18.00
High/Low	18.00	18.00
AM Official	18.00	18.00
Korb close	18.00	18.00
Open int.	18.00	18.00
Total daily turnover	18.00	18.00

CRUDE OIL NYMEX (per barrel)

	Close	Previous
Close	18.00	18.00
Previous	18.00	18.00
High/Low	18.00	18.00
AM Official	18.00	18.00
Korb close	18.00	18.00
Open int.	18.00	18.00
Total daily turnover	18.00	18.00

CRUDE OIL NYMEX (per barrel)

	Close	Previous
Close	18.00	18.00
Previous	18.00	18.00
High/Low	18.00	18.00
AM Official	18.00	18.00
Korb close	18.00	18.00
Open int.	18.00	18.00
Total daily turnover	18.00	18.00

CRUDE OIL NYMEX (per barrel)

	Close	Previous
Close	18.00	18.00
Previous	18.00	18.00
High/Low	18.00	18.00
AM Official	18.00	18.00
Korb close	18.00	18.00
Open int.	18.00	18.00
Total daily turnover	18.00	18.00

CRUDE OIL NYMEX (per barrel)

	Close	Previous
Close	18.00	18.00
Previous	18.00	18.00
High/Low	18.00	18.00
AM Official	18.00	18.00
Korb close	18.00	18.00
Open int.	18.00	18.00
Total daily turnover	18.00	18.00

CRUDE OIL NYMEX (per barrel)

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INTERNATIONAL CAPITAL MARKETS

Consumer confidence data hit Treasuries

By Lisa Branstetter in New York
and Martin Brice in London

Worries about an afternoon note auction, strong consumer confidence data and the general uncertainty that pervades days when the Federal Reserve's Open Market Committee meets all conspired to send Treasury prices lower yesterday morning.

By late morning the benchmark 30-year Treasury was off 1/8 at 103 to yield 7.368 per cent. At the short end of the market, the two-year note was down 1/8 at 100 1/8, yielding 6.008 per cent.

The market opened slightly lower as investors worried about demand at an afternoon auction of \$17.25bn in two-year notes and speculated about whether the Fed might issue a statement about the strength of the economy at the conclusion of the FOMC meeting.

A broad consensus of Wall

Street economists held that the central bank would not alter monetary policy.

At mid-morning, the market took a stronger downward turn after figures released by the Conference Board showed consumers to be much more confident than most economists had expected.

The board's general confidence index for March rose to 101 from an upwardly revised figure of 99.4 for February. Economists had forecast a decline to 97 per cent.

Analysts attributed the drop in bond prices to traders taking advantage of a slightly bearish turn in sentiment to position themselves for the afternoon auction.

In recent days traders had expressed concern that the market's bullish turn and the drop in yields that accompanied it would decrease demand for new government securities.

The Treasury is also to sell \$11bn in five-year notes today.

The weaker dollar also contributed to the falling bond market.

In morning trading the US currency slipped against the D-Mark and the Japanese yen to DM1.3970 and ¥98.07, against DM1.4063 and ¥98.45 late Monday.

GOVERNMENT BONDS

UK government bonds continued their recent trend of range-trading yesterday, as the Federal Open Market Committee meeting in the US weighed down any progress at the short end of the yield curve and today's gilt auction weighed on the long end.

Analysts expect the auction to generate reasonable demand, particularly from

domestic investors. The auction will be of £2bn of 8 per cent gilts due 2015.

A paper from UBS has pointed out that some investors avoided buying the first tranche in the hope that it would be cheaper relative to the curve.

These investors will be encouraged to buy today's issue because its weighting in the FT index of gilts with a maturity of more than 15 years will increase as the issue size increases from £2bn to £4bn.

The long gilt futures contract on Life was around 103 1/4, down 1/4, with resistance seen around 103 1/2. The UK 10-year yield spread over Germany was around 151 basis points in late trading, up from 147 points the day before.

German government bonds shifted up slightly yesterday, with little economic news to

drive any movement and investors staying firmly on the sidelines until after the Bundesbank council meeting tomorrow. Most analysts expect no reduction in short-term interest rates.

The June bond future on Life was around 92.04, up 0.01 on the day. Traders say there is a key support level at 91.98, and a strong resistance at 92.25. These two levels are likely to set the range of trading until after Thursday.

Italian government bonds ended the day lower, affected by profit-taking from Monday's rise and lack of news on pension reforms.

The June BTP future on Life was around 99.90 in late trading, down 0.32. The yield spread over bonds was around 623 basis points in late trading, little changed from the 622 points of the day before.

'Worst may be over' for investors in Russian debt

By Richard Lapper

The worst may be over for investors in Russian debt, according to traders who buy and sell the paper on the secondary market.

The price of the debt, which stems from loans made by Vnesheconombank, the bank for foreign economic affairs, plunged following fighting in Chechnya and the Mexican financial crisis in December.

Earlier this month, Russian debt fell to 18 cents in the dollar and yesterday it was languishing at 21 cents in the dollar.

Rising inflation and signs that politicians opposed to the government's reform process were gaining influence with President Yeltsin made matters worse. However, traders have been encouraged by bet-

ter news from Moscow.

In a paper published this week, Morgan Grenfell, the merchant bank, which is an active trader in the paper, pointed to the recent agreement of an IMF facility and signs that the government's economic reform programme is back on track.

The paper also notes that Russia has agreed a broad framework for restructuring its commercial debt with the London Club and that a timetable has been outlined for negotiations in the summer.

Morgan Grenfell said that this month's price fall has been "driven down by supplies out of a major trading house's proprietary account and by sales to two US funds, which have sold to finance 'bottom fishing' in Latin America."

"Everything has been driven

down by Mexico but there are some good risks out there which are very cheap. You can pick up assets where prices are quite cheap," said Ms Ingrid Iversen, an economist at the bank.

The paper points out that the price of Russian assets has a low correlation with Latin American Brady bonds, paper issued by governments in exchange for distressed commercial bank debt.

"Russian loans are languishing despite better news, but we believe they are capable of rallying, independently of the market as a whole, as restructuring talks approach," says Morgan Grenfell.

Loans denominated in Deutsche marks are seen as particularly attractive, since these have higher levels of past due interest.

Concern over terms of Argentina preference issue

By Antonia Sharpe

The eurobond market yesterday failed to get much more information about the planned D-Mark issue of Euro-preference shares by Argentina, the Spanish bank which is 51 per cent owned by the government.

INTERNATIONAL BONDS

The bank said the initial size of the offering, the first in the eurobond market, would be DM200m and the dividend, to be paid annually or quarterly, would be in the range of 6% to 8% per cent. Legal constraints prevented Merrill Lynch, the lead manager, from providing more details.

Many syndicate managers felt uncomfortable about the deal, especially as Barings' collapse has cast a shadow over deeply subordinated bank debt.

In addition, German investors were not believed to be keen on ultra long-dated paper. One syndicate manager noted that the 30-year bond had not been taken off, which hardly bodes well for an undated D-Mark preference share issue from a Spanish bank.

Two further concerns were that the dividend is fixed, unlike dividends on preference shares in German companies which reflect changes in dividends on ordinary shares, and that the shares might be difficult to trade. However, the market believes Merrill must have pre-placed a large portion of the deal to be going ahead.

Elsewhere, the flow of euro-dollar issuance continued as CCCC, the French mortgage bank, raised \$400m through an offering of five-year floating-rate notes and Wal-Mart Stores, a popular name among continental European retail investors, launched a \$300m of three-year eurobonds.

NEW INTERNATIONAL BOND ISSUES									
Issuer	Amount	Coupon	Price	Maturity	Yield	Spread	Book runner		
US DOLLARS									
Walmart Stores	400	7.00	98.625	Apr 2000	0.175	175/16	CSFB HSBC Markets		
Wal-Mart Stores	250	7.00	98.625	Apr 1998	0.225	225/16	Goldman Sachs International		
ITALIAN LIRE									
Reyher (Lombard)	150bn	12.00	101.365	Nov 1997	1.375		Credito Italiano		
GUILLERMO									
De Nacional Inversiones	200	7.125	99.625	May 2002	0.125	125/16	ABN Amro Hoare Govett		

Yield spread lower (interest government bond) at launch implied by lead manager. 1/2 Floating-rate note. 1/2 Fixed rate offer price. Issued at re-offer level. 1/2 3-month Libor + 1/2. 1/2 Long 10-year coupon.

CCCC's deal injected badly-needed liquidity into the FRN sector which has seen poor supply this year and syndicate managers said there was little prospect of further issues in the near future.

The discounted margin on the notes of 15 basis points over Libor, which compared favourably with outstanding FRN issues from banks with similar double A ratings, got the deal off to a good start, the joint lead managers CSFB and HSBC said.

The bank's 20 per cent risk weighting also appealed to investors, they said, but it would take some time to place the entire offering.

When the notes were freed to trade the margin remained stable. The issuer is believed to have swapped the proceeds into floating-rate French francs, at a similar margin over the Paris interbank offered rate. The notes were mainly sold to institutional investors in Asia and Europe.

By contrast, Wal-Mart's euro-

Matif broadens currency range

By Andrew Jack in Paris

Matif, the French financial futures exchange, yesterday unveiled two currency products and revised procedures to speed up settlement.

From May 22, subject to regulatory approval, the exchange said it would offer sterling/D-Mark and D-Mark/Lire options, with specifications similar to its existing currency options.

The two products represent the latest stage in Matif's strategy to launch a number of currency products, which started last year with its dollar/franc and dollar/D-Mark options.

"We believe that if our product range of currency options is wider, we will have more chance of attracting business," Matif said yesterday. "The idea is to develop a whole range of currency products."

Mr Gérard Fauwadel, chair-

man, added: "Currency derivatives traded in an organised, secure and transparent European market certainly have their uses in a highly volatile forex environment."

At the same time, Matif said that it was accelerating its currency delivery procedures, so settlement on options will be completed within one day.

terday confirmed that it had reached an agreement for the exchange of information with its German counterpart, the Bundesanstalt für den Wertpapierhandel.

Matif said the agreement was the final step necessary for the second phase of its link-up with the DFB, the Frankfurt financial futures market, which will lead to French products being offered to German traders on electronic screens by the end of the year.

The selection, which comes in exchange for two DFB products already available through screen trading in Paris, will take place after recommendations from members at their annual general meeting, which is scheduled for April 11.

Matif has had less success with two of its interest rate products which are now virtually dormant: French long-term term and French long-term futures.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia	9.000	09/04	98.500	+0.110	10.07	10.14
Austria	5.000	01/05	100.540	+0.040	7.41	7.41
Belgium	7.500	10/04	97.810	-0.030	8.03	8.03
Canada	9.000	12/04	101.250	+0.150	8.79	8.86
Denmark	7.000	12/04	97.870	-0.100	8.91	8.98
France	6.000	02/05	101.200	+0.050	7.60	7.67
Germany	5.000	04/05	98.500	+1.250	7.71	7.88
Germany Bund	7.750	01/05	101.360	+0.040	7.17	7.41
Ireland	6.250	10/04	92.900	-0.130	6.11	6.19
Italy	7.750	01/05	97.810	-0.140	12.55	13.14
Japan	4.000	06/05	108.610	-0.11	3.21	3.83
Netherlands	4.000	09/04	102.340	+1.222	3.71	3.96
Portugal	7.750	01/05	103.000	+0.050	7.11	7.12
Spain	10.000	02/05	98.450	-0.340	12.43	12.32
Sweden	6.000	02/05	98.220	-0.480	11.34	11.22
UK Gilts	6.000	02/05	97.17	-0.02	8.37	8.33
US Treasury	6.500	12/05	100.03	-0.02	8.49	8.41
EU (French Govt)	7.000	10/04	104.03	-0.02	8.49	8.42
EU (German Govt)	7.000	10/04	104.03	-0.02	8.49	8.42
EU (French Govt)	6.000	04/04	95.180	-0.140	8.40	8.41

London closing. "New York end-of-day." Yield: London market standard. 1/2 Gross (including withholding at 25 per cent payable by non-residents). Source: M&I International.

US INTEREST RATES

Instrument	Rate	Change
1-month	5.75	-0.01
3-month	5.75	-0.01
6-month	5.75	-0.01
9-month	5.75	-0.01
12-month	5.75	-0.01

BOND FUTURES AND OPTIONS

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
France							
Jun	112.76	112.64	-0.16	112.80	112.38	774	112,820
Dec	112.26	112.04	-0.18	112.30	111.96	749	112,820
Dec	112.19	111.94	-0.25	112.10	111.62	2	1,330
Germany							
Jun	112.76	112.64	-0.16	112.80	112.38	774	112,820
Dec	112.26	112.04	-0.18	112.30	111.96	749	112,820
Dec	112.19	111.94	-0.25	112.10	111.62	2	1,330

Est. vol. total: Call 6,700 Puts 1,210. Previous day's open int.: Call 164,444 Puts 22,002.

UK GILTS PRICES

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
UK Gilts							
Jun	91.60	91.60	0.05	91.70	91.50	49	22,005
Dec	91.60	91.60	0.05	91.70	91.50	49	22,005

BOND FUTURES OPTIONS (LIFE) DM250,000 points of 100%

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
UK Gilts							
Jun	91.60	91.60	0.05	91.70	91.50	49	22,005
Dec	91.60	91.60	0.05	91.70	91.50	49	22,005

ITALY NATIONAL ITALIAN GILT (BTP) FUTURES

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
Italy							
Jun	94.27	94.00	-0.22	94.53	93.85	54,975	47,011
Sep	94.27	94.00	-0.22	94.53	93.85	54,975	47,011

ITALY NATIONAL ITALIAN GILT (BTP) FUTURES OPTIONS (LIFE) Lira200m 100% of 100%

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
Italy							
Jun	94.27	94.00	-0.22	94.53	93.85	54,975	47,011
Sep	94.27	94.00	-0.22	94.53	93.85	54,975	47,011

Spain NATIONAL SPANISH BOND FUTURES (MEFF)

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
Spain							
Jun	91.33	91.33	-0.38	91.35	90.87	43,123	43,654
Sep	91.33	91.33	-0.38	91.35	90.87	43,123	43,654

UK NATIONAL UK GILT FUTURES (LIFE) £50,000 32nds of 100%

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
UK							
Jun	103.00	102.97	-0.03	103.00	102.28	358	6,927
Dec	103.00	102.97	-0.03	103.00	102.28	358	6,927

LONG TERM FRENCH BOND FUTURES (MATIF) 500,000 64ths of 100%

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
France							
Jun	112.76	112.64	-0.16	112.80	112.38	774	112,820
Dec	112.26	112.04	-0.18	112.30	111.96	749	112,820
Dec	112.19	111.94	-0.25	112.10	111.62	2	1,330

US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
US							
Jun	104.30	104.27	-0.03	104.31	104.24	185,947	331,266
Sep	104.30	104.27	-0.03	104.31	104.24	185,947	331,266
Dec	104.30	104.27	-0.03	104.31	104.24	185,947	331,266

JAPAN NATIONAL LONG TERM JAPANESE GILT BOND FUTURES (LIFE) ¥100m 100% of 100%

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
Japan							
Jun	113.85	113.85	0.00	113.89	113.83	21,277	0
Sep	113.85	113.85	0.00	113.89	113.83	21,277	0

* LIFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
UK Gilts							
1 to 5 years (24)	110.54	110.54	-0.04	110.58	110.52	2,880	5 yrs
5 to 15 years (21)	140.72	140.72	-0.17	140.98	140.68	3,118	15 yrs
Over 15 years (11)	175.74	175.74	-0.14	176.02	175.44	1,582	20 yrs
4 Irredeemables (8)	181.27	181.27	-0.12	181.49	181.27	1,477	Fixed
5 All Gilts (80)	137.47	137.47	-0.16	137.68	137.17	3,22	

Average gross redemption yields are shown above. Coupon basis: UK: 0% - 10%; Medium: 0% - 10%; High: 11% and over. * Full yield, yield to date.

FT FIXED INTEREST INDICES

Instrument	Open	Settle	Change	High	Low	Est. vol.	Open int.
Gilt, Secs. (UK)	91.79	91.99	0.19	91.74	91.69	95.97	107.04
Fixed Interest	110.48	110.41	-0.07	110.45	110.37	105.50	

* For 1994/95, Government Securities high coupon completion: 127.40 (91/93), low 44.16 (91/93). Fixed interest high coupon completion: 135.87 (91/94), low 50.83 (91/93). Bank 100 Government Securities 191/01 and 191/02 and 191/03. SE activity index increased 1074.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Listed prices at 7:30 pm on March 29.

Baden-Wuert (in Pf) 00	1000	103 1/2	102 1/2	7.29			World Bank (Pf) 00	7.08
Bank Ned Gemeenten 7 50	1000	99 1/2	99 1/2	7.08				
Bank of Tokyo (Pf) 98	1000	101 1/2	101 1/2	7.05			SWISS FRENCH STRAIGHTS	
Belgium 5 1/2 00	1000	95 1/2	95 1/2	7.05			Amen De Bank 6 10	7.08
Bombay 10 1/2 00	1000	101 1/2	101 1/2	7.07			Austria 4 1/2 00	7.08
British Gas 0 21	1000	125 1/2	125 1/2	8.09			Council Europe 4 1/2 98	7.08
Canada 0 37	2000	98 1/2	99 1/2	7.08			Denmark 4 1/2 98	7.08
Chung King Fin 5 1/2 98	500	105 1/2	105 1/2	8.74			EB (Pf) 00	7.08
China 5 1/2 00	1000	101 1/2	101 1/2	7.08			China 5 1/2 00	7.08
Council Europe 8 1/2 98	1000	101 1/2	101 1/2	8.05			Finland 7 1/2 98	7.08
Credit Foncier 5 1/2 98	300	107 1/2	107 1/2	7.28			Hyndal Motor Fin 0 1/2 97	7.08
Denmark 6 1/2 98	1000	98 1/2	97 1/2	7.08			Island 7 1/2 00	7.08

HEALTH CARE - Cont.

INVESTMENT TRUSTS - Cont.

[illegible][illegible][illegible][illegible][illegible]

Warrants & Volume	364	42
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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (REGULATED) ()**

Lazard Cap. Share	2277.73	300.00	
Lazard O'ed Bond	22.56		
Lazard O'ed Bond	22.56		
Lazard O'ed Bond	22.56		

IRELAND (STB RECOGNISED)

GT Asset Management (Ireland) Ltd
 140 171 710 4517 London 1852 842 7300 Hong Kong

IRELAND (REGULATED)*

Dynamic Pacific Portfolio Fund Plc		
NAV	\$8.04	+0.08

NAV	\$4.79	+0.99
Uster Bank Investment Services		

City Financial Admin (10M) Ltd
 - Hudson Office & Warehouse - 00.07 0.70 -

Inland Equity	5	95.06	100.06	+
TSE Gift Fund Ltd				
Quarterly Share	3	101.09	105.39	+
Quarterly Share	3	99.92	103.16	+

0.00	Jupiter Tyndall (Jersey) Ltd			
	Car Fd	103.40	115.0	

10.00	26 Place de la Gare, L-1878		00
	Equity Funds		
7.78	European Equity F. 52	17.723	1.205
7.78	European Equity F. 52	17.723	1.205

8.70
= 70

INVESTCO International Limited (w)

2 40-60-451
--- 118.75

19.00	UK Inc & Given	27.42
	Issuing Funds	
	Amortization & Bond	225.00

11-11-72

0.00	0.00
3.02	3.41
7.03	6.73

日期	星期	上午	下午	晚間	合計	備註
1月1日	星期一	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月2日	星期二	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月3日	星期三	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月4日	星期四	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月5日	星期五	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月6日	星期六	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月7日	星期日	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月8日	星期一	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月9日	星期二	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月10日	星期三	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月11日	星期四	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月12日	星期五	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月13日	星期六	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月14日	星期日	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月15日	星期一	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月16日	星期二	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月17日	星期三	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月18日	星期四	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月19日	星期五	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月20日	星期六	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月21日	星期日	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月22日	星期一	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月23日	星期二	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月24日	星期三	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月25日	星期四	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月26日	星期五	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月27日	星期六	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月28日	星期日	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月29日	星期一	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月30日	星期二	08:00-12:00	13:00-17:00	18:00-22:00	30	
1月31日	星期三	08:00-12:00	13:00-17:00	18:00-22:00	30	

MANAGED FINANCING MOTIVS

Most are in private urban centers industrialized and dependent on sales in greater ratio to U.S. dollars. They are in the process of being restructured to meet the needs of the private sector. The process is being carried out by the World Bank and the Inter-American Development Bank. The process is being carried out by the World Bank and the Inter-American Development Bank. The process is being carried out by the World Bank and the Inter-American Development Bank.

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WORLD STOCK MARKETS

EUROPE									
AUSTRIA (Mar 28 / Fri)									
Alpine	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Bank Austria	2,200	-20	2,180	2,170	2,160	2,150	2,140	2,130	2,120
Erste Bank	1,800	-10	1,790	1,780	1,770	1,760	1,750	1,740	1,730
Industrieholding	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Medbank	1,000	-10	990	980	970	960	950	940	930
Österreichische	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Postbank	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Rechtsbank	1,000	-10	990	980	970	960	950	940	930
Salzburger	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Wiener	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Yettel	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Zoo	1,000	-10	990	980	970	960	950	940	930
BELGIUM (Mar 28 / Fri)									
Alcatel	3,200	-20	3,180	3,170	3,160	3,150	3,140	3,130	3,120
Alkermis	2,200	-20	2,180	2,170	2,160	2,150	2,140	2,130	2,120
Alstom	1,800	-10	1,790	1,780	1,770	1,760	1,750	1,740	1,730
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
FRANCE (Mar 28 / Fri)									
Alcatel	3,200	-20	3,180	3,170	3,160	3,150	3,140	3,130	3,120
Alkermis	2,200	-20	2,180	2,170	2,160	2,150	2,140	2,130	2,120
Alstom	1,800	-10	1,790	1,780	1,770	1,760	1,750	1,740	1,730
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Aluminerie	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130

INDICES									
Mar 28									
Argentina	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Australia	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Canada	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Denmark	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
France	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Germany	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Italy	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Japan	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Netherlands	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Spain	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Sweden	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Switzerland	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Taiwan	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
UK	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
USA	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
US INDICES									
Dow Jones	4,157.34	41.36	4,198.70	4,198.70	4,198.70	4,198.70	4,198.70	4,198.70	4,198.70
S&P 500	1,017.34	10.17	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51
NASDAQ	2,157.34	21.57	2,178.91	2,178.91	2,178.91	2,178.91	2,178.91	2,178.91	2,178.91
NYSE	1,017.34	10.17	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51
AMEX	1,017.34	10.17	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51
NYSE	1,017.34	10.17	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51
AMEX	1,017.34	10.17	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51
NYSE	1,017.34	10.17	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51
AMEX	1,017.34	10.17	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51	1,027.51
AFRICA									
South Africa	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Kenya	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Nigeria	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Tanzania	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Zambia	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
NORTH AMERICA									
Canada	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
USA	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
Mexico	1,500	-10	1,490	1,480	1,470	1,460	1,450	1,440	1,430
TOKYO - MOST ACTIVE STOCKS									
Nippon Steel	3,200	-20	3,180	3,170	3,160	3,150	3,140	3,130	3,120
Sanrio	2,200	-20	2,180	2,170	2,160	2,150	2,140	2,130	2,120
Sumitomo Bank	1,800	-10	1,790	1,780	1,770	1,760	1,750	1,740	1,730
Sumitomo Corp	1,200	-10	1,190	1,180	1,170	1,160	1,150	1,140	1,130
Sumitomo Trust	1,000	-10	990	980	970	960	950	940	930

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on next page

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3:15 pm March 20

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AMERICA

Dow returns the bulk of Monday's rise

Wall Street

US shares gave back most of Monday's gains yesterday on the heels of falling bond and currency markets, writes Lisa Branstetter in New York.

By noon the Dow Jones Industrial Average was 15.21 lower at 4,142.13, while the more broadly based Standard & Poor's 500 was off 0.71 at 502.49. Meanwhile, the Nasdaq composite was up 0.51 at 823.14. New York SE volume came to 140m shares.

Bond prices dropped sharply at mid-morning after the Conference Board released figures showing consumer confidence

The Limited



rising, rather than declining as most economists expected. Although the figures do not generally move the market, yesterday's increase in the March confidence index to 101 from 99.4 in February cast some doubt on the increasingly accepted notion that the economy is slowing. A consensus of economists had forecast that the confidence index would have fallen to 97.

Some of the market's decline was also attributed to profit-taking after a record breaking week, and the dollar failed to support equities as it dropped against the D-Mark and the Japanese yen.

In individual shares, The Limited added nearly 8 per cent to its value, rising 1 1/4 to 2 1/4 after the retailing company announced a plan to reorganise its different businesses and distribute cash to shareholders. At noon The Limited was the second most actively traded share on the NYSE.

Technology stocks were

mixed as their Pacific Stock Exchange index shed 0.2 per cent. Adobe Systems added more than 10 per cent, rising 4 1/4 to \$52, after the software company announced an alliance with IBM to develop printing and publishing systems. IBM lost 3 1/4 to \$34 after a rise of 1 1/4 on Monday.

Apple Computer dropped 3 1/4 to \$34 after the securities house Salomon Brothers downgraded its rating to "sell" from "hold".

Micron Technology added another 3 1/4 to \$32, to continue its steady rise. Shares in the company, which manufactures parts for microcomputers, have nearly doubled since the beginning of February when the stock was trading close to \$14.

Zoll Medical jumped 3 1/4 to \$14 after the Food and Drug Administration said that it would allow the medical device company to market a new defibrillator.

Kenneth Cole Productions was 3 1/4 higher at \$24 1/4 after an analyst at Morgan Stanley initiated coverage of the shoe and handbag company with a "strong buy" rating. Nike, the athletic shoe company, also received a "strong buy" rating, but its shares softened 3/4 to \$75.

BancTec, which manufactures and maintains computer systems for processing checks and other documents, shed 3/4 to \$15 after the company said it expected fourth-quarter results to be lower than most analysts' estimates, because of a charge it would take to settle a lawsuit and the implementation of a reorganisation plan.

Canada

A profits warning and news of planned job cuts from the telecoms group Bell Canada cast a cloud over the Toronto market, forcing the TSE 300 index down to 4,283.60 at mid-session, a fall of 13.82. The gold and precious metals index shed 15.13 to 5,587.72.

Wall Street was dull but the main knock to sentiment came from Bell. The company forecast a 30 per cent setback to earnings for this year and said that more than 10,000 jobs - some 20 per cent of the group's workforce - would be axed over the next three years.

Brazil falls 1.9 per cent

Brazilian shares fell 1.9 per cent in thin midday trade on profit-taking as investors awaited an expected government announcement on measures to restrict consumption.

The Bovespa index, which had gained 12.3 per cent over the previous three sessions, was down 688 points at 33,066 at 1 pm in low turnover of R\$105.3m (\$15.7m).

Brazil's National Monetary Council meets today to discuss measures to curb consumption.

Telebras preferred was 1.8 per cent lower at R\$27, while Vale do Rio Doce preferred retreated 4.6 per cent to R\$134.50. Petrobras weakened 2.2 per cent to R\$71.

BUENOS AIRES slipped in late morning trade as profits were taken after the 10 per cent rise of the previous two days, when foreign investors demonstrated optimism over Argentina's banking and fiscal reforms. The Merval index eased 2.28 to 365.16.

S African industrials firm

Johannesburg gold shares saw mild early gains pared as buyers pulled back following a slip in the bullion price late in the day. However, analysts reported a firmer tone in the market and said that industrial gains in the face of weaker European stocks had boosted sentiment, although

volume was low and interest selective.

The overall index finished 11.5 better at 5,212.1, industrials edged up 0.1 to 1,357.9, and golds edged up 0.1 to 1,371.1, with some about quarterly gold mine results next month also capping activity.

EUROPE

Michelin shines as Paris bourse holds its ground

Senior bourses were disposed to follow neither a record breaking equity market in New York overnight, nor an excited Tokyo, writes Our Markets Staff. Yesterday's Dow opened lower, late in the European day.

PARIS, nevertheless, crept back into positive territory in the final hour of the session, with the CAC-40 closing at 1,837.19, up 1.09.

Selective buying from foreign investment funds continued, the latest news from the presidential opinion polls was more favourable, and a number of individual features - notably Renault and Michelin - shone through strongly.

Michelin gained FF8.40 at FF205 after reports that the company was seeking to push through tyre price increases. The talk was of 5 per cent for replacement tyres, with one French newspaper citing a possible 20 per cent rise for original equipment business.

Renault firmed FF2.70 to FF173.20, with the motor group announcing better than expected 1994 profits at the close. Dealers expected a strong market in the shares today; after-tax profits of FF3.6bn compared with FF3.3bn at the top of the estimates range, leading some ana-



lysts to suspect favourable tax factors, and the dividend was increased to FF3.50, against FF2 last time.

FRANKFURT, ultimately, moved on the dollar rather than on the Dow. It tried to rise, recording an intraday high of 1,945.46, but further weakness in the US currency, with its implications for German corporate profits, took the Dax index through 1,900 to a day's low of 1,896.55.

The key index closed at new 1994-95 lows of 1,910.96 on the session and 1,911.70, down 17.12 in the post-bourse. Mr Gebhard Klingenstein, head of equities at BZW in Frankfurt, said that

BZW had cut its Dax earnings forecasts by 5 per cent for 1995 and that his house was currently taking a negative view of the market.

Company news moved shares very little. Hoechst fell DM2.80 to DM279.50: the chemical group's comment that a 15 per cent earnings rise this year was "certainly possible" compared with some brokers' forecasts of a 30 per cent gain.

Dresdner lost DM3.50 at DM378, although the bank's maintained DM13.50 dividend offers a yield to German shareholders of above 5 per cent gross.

Turnover stayed thin, and when sellers appeared, as in Mannesmann, they took their toll: the steels to mobile telephones combine dropped DM9 to DM357. In banks, the relatively volatile Bayernverein fell DM12 to DM403; and in retailers, Kaufland lost DM10.50 at DM477.50.

ZURICH finished lower, with the strength of the Swiss franc and Frankfurt's weak performance combining to put a cap on activity. The SMI index fell 2.5 to 2,495.6.

Ciba registered jumped 3.4 per cent to SF765 in immediate response to the better than expected 1994 results. But the shares slipped back to finish a

FTSE Actuaries Share Indices									
THE EUROPEAN SERIES									
	Mar 28	Mar 27	Mar 24	Mar 23	Mar 22	Mar 21	Mar 20	Mar 19	Mar 18
FTSE 100	1251.26	1247.48	1245.05	1243.23	1240.46	1242.45	1242.45	1242.45	1242.45
FTSE 200	1360.54	1356.07	1356.02	1353.63	1350.68	1353.28	1353.28	1353.28	1353.28
FTSE 300	1251.26	1247.48	1245.05	1243.23	1240.46	1242.45	1242.45	1242.45	1242.45
FTSE 400	1360.54	1356.07	1356.02	1353.63	1350.68	1353.28	1353.28	1353.28	1353.28
FTSE 500	1251.26	1247.48	1245.05	1243.23	1240.46	1242.45	1242.45	1242.45	1242.45

net SF12 up at SF762 after the chairman dashed some investors' hopes of an impending restructuring. He said the company planned to continue its activities in the healthcare, agriculture and industry sectors, and had no interest in buying Sandoz's chemicals business.

The Ciba result initially pulled the rest of the sector higher, but by the close Roche certificates were down SF15 at SF6,465 and Sandoz was SF15 lower at SF740.

The weak dollar left Nestlé another SF18 down at SF1,100, while UBS bearers lost SF8 at SF1,020, their level before Friday's surge when hopes grew for a resolution to the single share row.

Holderbank advanced SF11 to SF841 in a technical rebound and after a large buy order by a Swiss bank.

MILAN was restrained by an

absence of progress on pension reform and clarification of a general election date, although corporate results provided interest. The Comit index picked up 0.83 to 404.95.

Banks were mostly lower although BCI picked up L73 to L3,344 in further response to Monday's announcement that it had managed to hold last year's results at 1994 levels.

Among blue chips, Pirelli gained L35 to L1,173 after Monday's announcement of a return to profit after three years of losses.

Olivetti lost L24 at L1,696 and Cir, the De Benedetti holding company, shed L31 to L1,421, on continued fears that the group had made a heavy 1994 loss. Sna, Fiat's fibres and chemicals company, rose L27 to L1,905 on forecasting improved 1995 profits, on top of its sharply better 1994 result.

Mondadori, Italy's largest

publishing company, gained L396 to L3,685, off a high of L3,740, after announcing better 1994 net profit.

STOCKHOLM saw the Affarsvärlden General Index 7.70 off at 1,456.80. At one stage it looked to be heading for a sharper setback but an active day for Ericsson came to the rescue. Shares in the communications group were upgraded from neutral to above average by Merrill Lynch and closed SKR7 higher at SKR453. They had been trailing at SKR447 earlier in the session. The US broker enhanced its view of Ericsson on trading considerations in North America.

ISTANBUL dropped 1.5 per cent in profit-taking which, said brokers, could begin the awaited downward correction following 16 record highs since February 20. Turnover tumbled from TL3,846m to TL1,185m as the composite index fell 70.61 to 36,688.88.

WARSAW fell to a new 62-week low, the Wig index losing 185.8, or 2.7 per cent at 5,904.7, as a previous, two-session rally petered out. Turnover rose by about 17 per cent, to 24.6m zlotys.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Brown

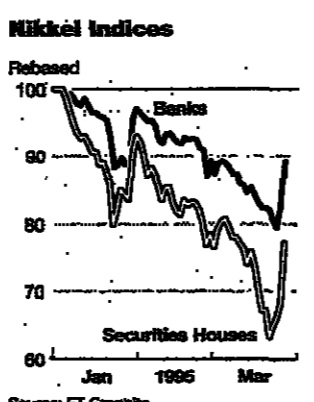
ASIA PACIFIC

Nikkei lifted 3.6% by surge in banks and brokers

Tokyo

Late afternoon reports of a merger between two commercial banks excited investors, and the Nikkei 225 averaged a 3.6 per cent up, writes Emiko Terazono in Tokyo.

The index rose 585.48 to 16,881.73, finishing at its high for the day after a low of 16,097.88. The Toxip index of all first section stocks moved ahead 59.05 or 4.7 per cent to



1,324.84, while the Nikkei 300 shot forward 12.21 or 5.3 per cent to 245.35. Advances overwhelmed declines by 935 to 113, with 67 issues unchanged. In London the ISE/Nikkei 50 index rose 15.72 to 1,116.89.

Share prices advanced in the morning on Monday's announcement by Mr Masayoshi Takemura, the Japanese finance minister, pledging to introduce an early supplementary budget and to urge the Bank of Japan for an early easing of monetary policy. An afternoon rise in futures prices prompted arbitrage buying.

However, activity was subdued until reports of a merger between Mitsubishi Bank and Bank of Tokyo, two leading commercial banks, lifted the banking sector, and volume for the day fell from 303.6m shares to 265m.

Banking analysts said the market's rise, just ahead of the closure of institutional books for the fiscal year 1994-95, at the end of March, was a blessing for the weaker banks. Japanese banks are allowed

to use unrealised profits on stockholdings as capital, and the capital ratio rules laid by the Bank of International Settlements are set using fiscal year and financial figures. "Some of them would not have made 8 per cent (capital ratio) if the market had not risen," said Mr David Snoddy at Jardine Fleming.

The Tokyo Stock Exchange suspended trading of Mitsubishi Bank and BOT stocks. Mitsubishi was changing hands at Y2,150, up Y180 on the day, and BOT at Y1,400, ahead Y150 before trading was halted.

Investors, however, bought other banking stocks, and the sector gained 5 per cent on the day. Industrial Bank of Japan climbed Y230 to Y2,320, Dai-ichi Kangyo Bank Y180 to Y1,790 and Sumitomo Bank Y180 to Y1,890.

Brokers posted the strongest advances of the day, with the sector rising 13.5 per cent. Nomura Securities put on Y200 at Y1,730 and Daiwa Securities Y100 at Y1,050.

Foreigners purchased large-capital issues. Nippon Steel, the most active stock of the day, firmed Y10 to Y332 and Mitsubishi Heavy Industries added Y20 at Y610.

In Osaka, the OSE average rose 548.89 to 18,193.17 in volume of 168.9m shares. Machinery stocks strengthened. Murata by Y220 to Y3,470 and Mori Seiki by Y210 to Y1,750.

Roundup

Tokyo's positive tone spilled over to some regional markets. HONG KONG punched through the 5,800 level on late afternoon buying and on Tokyo's hefty gains. The Hang Seng index jumped 140.39 or 1.6 per cent to 8,837.93.

HSBC rose HK\$1.50 to HK\$86.75 and Hong Kong Telecom 25 cents to HK\$15.55. Futures will be launched on both issues on Friday and brokers said that the two had seen sustained buying interest in recent weeks.

SINGAPORE was lifted by US programme buying and the Straits Times Industrial index gained 13.67 at 2,104.24. Yeo Hiap Seng closed 14 cents

higher at S\$4.38 on continuing speculation of a looming takeover battle.

MANILA recovered strongly on foreign buying in thin trading conditions. The composite index finished 40.37 up at 2,286.76. Turnover, although above Monday's level, remained below average.

KUALA LUMPUR continued to show caution ahead of today's annual report from Bank Negara, on lingering concern about Malaysia's current account deficit. But the composite index rose 12.01 or 1.3 per cent to 964.75.

Amalgamated Industrial Steel jumped 55 cents to M\$7.90 on continued talk of a timber deal, while Ekran moved up 40 cents to M\$8.30 on rumours of a bonus issue.

SYDNEY was hit by budget jitters and balance of payments worries, and the All Ordinaries index closed 9.1 down at 1,899.7.

Rumours circulated about a possible increase in corporate taxes, although most dealers felt that May's budget would not contain a shift in this area. There was also some nervousness ahead of tomorrow's balance of payments data.

There was weakness among resource stocks, and selective selling of recent outperformers. BHP fell 20 cents to A\$18.10. CRA by 6 cents to A\$17.30 and MIM by 3 cents to A\$1.78.

Banks declined after recent substantial gains. NAB closing off 8 cents at A\$4.36, ANZ 7 cents down at A\$4.82 and Westpac 3 cents easier at A\$4.83.

WELLINGTON moved ahead throughout the session to close at its best of the day. Helped by an improving bond market, the NZSE-40 capital index ended at 1,891.46, up 33.87. Telecom, ahead 6 cents at NZ\$5.76, closed just short of an all-time peak.

SEOUL's early gains were soon eroded by profit-taking in blue chips by institutional investors, and the composite index finished 5.94 lower at 947.90, off a high of 963.32.

Samsung Electronics went limit up to Won127,700 in early trade but ended at Won120,200 on profit-taking.

Brokers noted that some expensive issues with low price/earnings ratios gained further momentum. Taekwang Industry set another record high of Won723,900, making it the most expensive stock on the Seoul bourse.

البنك التجاري THE NATIONAL COMMERCIAL BANK (A GENERAL PARTNERSHIP - C.R. 1588)

FINANCIAL HIGHLIGHTS AS OF 31 DECEMBER 1994

	(In Thousands of Saudi Riyals)	
	1994	1993
BALANCE SHEET		
ASSETS		
Cash, balances with SAMA and due from banks	13,336,740	18,802,623
Trading securities, investment securities, net	18,245,558	15,779,014
Loans and advances, net	33,043,538	27,325,814
Fixed assets, net	1,475,736	1,414,583
Other assets and other real estate	3,366,263	3,393,488
TOTAL ASSETS	69,467,835	66,715,522
LIABILITIES AND PARTNERS' EQUITY		
LIABILITIES		
Total deposits:		
(Customer's call, time, saving deposits and other deposits)	52,794,449	51,438,509
Due to banks	7,449,931	6,703,790
Other liabilities	2,126,407	1,620,921
TOTAL LIABILITIES	62,370,787	59,763,220
PARTNERS' EQUITY		
Capital	6,000,000	6,000,000
Statutory reserve	1,097,048	952,302
TOTAL PARTNERS' EQUITY	7,097,048	6,952,302
TOTAL LIABILITIES AND PARTNERS' EQUITY	69,467,835	66,715,522
CONTRA ACCOUNTS		
	57,094,747	45,746,433
STATEMENT OF INCOME		
Total Operating Income	3,568,317	3,107,313
Less: Cost of funds	1,452,123	1,174,581
Income before operating expenses	2,116,194	1,932,732
Total Operating Expenses	1,420,573	1,576,047
Net Income from Operations	695,621	356,685
OTHER INCOME (EXPENSES)		
(Losses) gains on investment securities	(209,233)	32,274
Gains (losses) on disposal of fixed assets	5,080	(133)
Income from trading securities	49,472	120,820
Other income	79,197	34,115
Donations and charitable contributions	(31,150)	(40,578)
Zakat	(10,000)	0
TOTAL INCOME (EXPENSES)	(116,634)	146,498
NET INCOME	578,987	503,183

For a copy of our Annual Report 1994: Contact Farouk Eid, Corporate Communications Division
The National Commercial Bank, PO Box 3555, Jeddah 21481, Saudi Arabia. Tel: 966 (2) 6446444 Fax: 6446468

DANISH BANKING AND FINANCE

Wednesday March 29 1995

Turbulence sweeps sector

A free-for-all is taking place in which banks, insurance companies and mortgage banks are fighting for business, writes Hilary Barnes

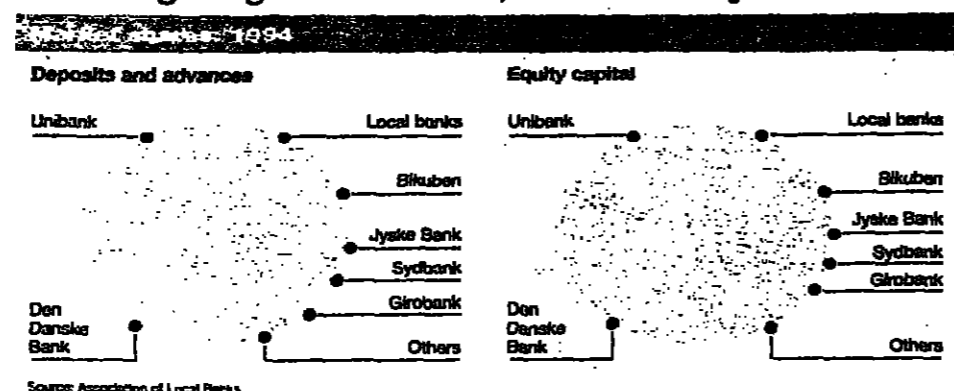
A year ago Denmark's financial services sector was struggling to recover from the enormous losses sustained in the early 1990s as a result of recession, business failures, and the collapse of property and other asset markets.

Today, the financial position has stabilised, but the sector has been plagued by intense competition into a new period of turbulence. Not only are banks pitted against banks: a free-for-all is taking place in which banks, insurance companies and mortgage banks are fighting each other for business.

Fortunately, the economy is strong, so that although competition is making it hard for companies to produce satisfactory returns on capital, overall market conditions are helpful. Real growth in gross domestic product was about 4.5 per cent in 1994 and although the growth rate may slow, most forecasters believe it will continue to be relatively rapid this year and next. Inflation is expected to be about 2.5 per cent this year. In addition, there is a large trade and current balance of payments surplus and a relatively modest deficit on government finances.

The fundamentals are good enough for Danes to wonder why there has not yet been a narrowing of the spread, currently about 150 basis points, between yields on Danish and German long-term government bonds. The most frequently cited explanation is Denmark's decision to opt out of participation in the final phase of Europe's Economic and Monetary Union, as envisaged by the Maastricht treaty.

The Danish banking sector avoided a crisis of the severity which hit other Nordic countries in 1991-93. None of the leading banks had to be rescued by government interven-



tion, although some smaller banks failed and were absorbed, in most cases, by other banks. The bad debt losses sustained by the Danish banks were on the same scale as those in other Nordic countries, but, as Mrs Bodil Nyboe Andersen, the new governor of Danmarks Nationalbank (the central bank), has made clear, banks were cushioned against the crisis by very high capital adequacy ratios, a legacy of strict Danish legislation from the 1930s.

An active supervisory authority, which had always imposed stringent requirements for provisions against potential credit risks, has also meant that the banks were better prepared to meet hard times than their Nordic counterparts.

The insurance industry was, however, more badly shaken, though not by insurance losses. The parent companies of the two largest insurers, Hælfia (as it then was) and Baltica, were brought down by speculative investments in other fields, and the reverberations from these problems are still being felt.

Hælfia was taken over in 1993 by Codan, the Danish company controlled by the

UK's Sun Alliance, which is now Denmark's largest company in general insurance. Baltica finally landed last year in the lap of Den Danske Bank, the largest commercial bank, which is now trying to sell off most of Baltica's general insurance, though it will retain control of Baltica's life assurance arm.

Less well-known outside Denmark, but very important domestically, are the bond-insuring mortgage banks. They, too, were shaken by the financial crisis of the early 1990s. They have recovered, but the old-established mortgage banks, Nykredit, Realkredit Danmark and Byggeriets Realkreditfond, are facing a battle for survival against new competitors set up by the banks.

As a small country, with a population of 5.2m, Denmark is profoundly influenced by external developments. The competitive climate which is changing the face of the finance industries is the result of liberalisation taking place within the framework of the European Union's single market.

As a result Copenhagen is having to struggle to maintain its position as a significant financial market.

Copenhagen was the first market to abandon paper secu-



Thorleif Krarup, chief executive of Unidanmark and chairman of the Bankers' Association. Photo: Reuters

rities when the Securities Registration Centre opened for business in 1993. But the establishment of an efficient clearing and settlements system has not prevented a substantial share of the trade in Danish securities from moving to London.

From next year, the markets will be liberalised once more. The legal monopoly to operate a stock exchange, which is enjoyed by the Copenhagen Stock Exchange, will be ended; the exchange will become a limited company and foreign brokers will be permitted, and indeed encouraged, to become



Copenhagen is having to struggle to maintain its position as a significant financial market. Photo: Tony Andrews

members without having a physical presence there.

However, a bitter battle is taking place between the interested parties – the share and bond issuers, the traders, and the institutional investors – for effective control of the new stock exchange. The battle, according to Professor Svend Caspersen, chairman of the exchange, will prove "suicidal" to the Copenhagen market if the combatants do not soon sort out their differences and ensure that the Copenhagen Stock Exchange functions efficiently, cheaply and competitively.

The continuing battle between the banks, insurance companies and mortgage banks is characterised by Mr Alf Duch-Pedersen, chief executive of Tryg, the insurance group, as essentially a matter of obtaining customer contacts and cementing customer loyalty.

Banks, by virtue of their branch networks, are in a strong position, and they are exploiting their strength by setting up insurance and mortgage bank subsidiaries. The bank-owned mortgage banks (Den Danske Bank's Danske Kredit, Unidanmark's Unikredit and the provincial banks'

jointly-owned Totalkredit) won around four-fifths of the new residential mortgage business in 1994.

The mortgage banks are striking back. The largest, Nykredit, has set up an extensive network of alliances with smaller banks, taking substantial equity stakes in several of them, notably Bikuben, the country's third ranking bank, and Sydbank, which serves the southern half of the Jutland peninsula. The insurance companies have one advantage which the banks do not have: they are exempted from Denmark's general ban on telephone marketing. But this privilege is under threat, with the Folketing currently considering a proposal to end the insurance industry's special status.

Competition between the banks is as intense as that with other financial services sectors. The two big universal banks, Den Danske Bank and Unidanmark, have about 35 and 25 per cent of the market respectively. The five biggest banks, including Bikuben, Jyske Bank and Girobank, have a market share of about 76 per cent.

Danske and Unidanmark are

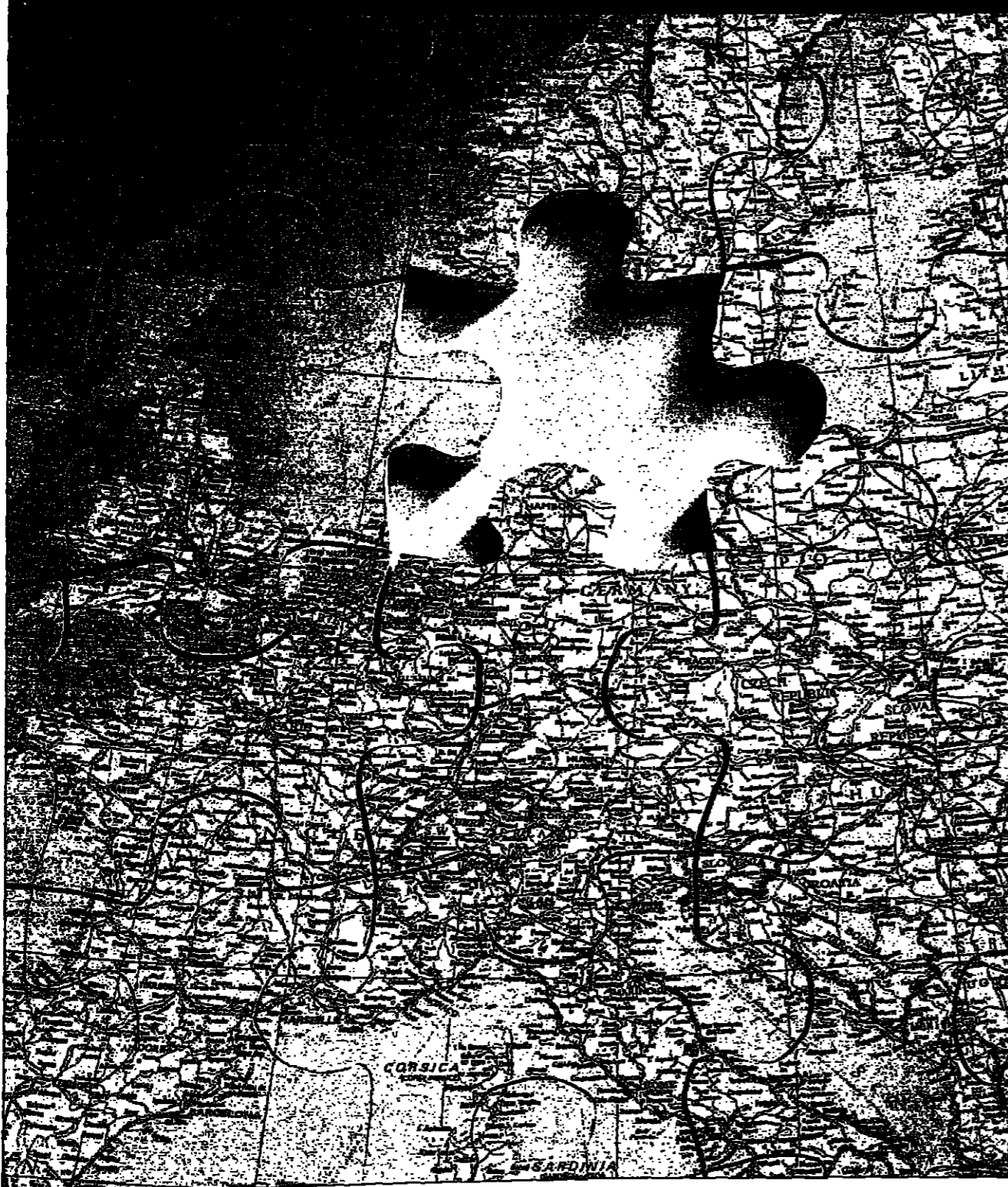
the outcome of a merger of the six largest banks into two big ones in 1989. The mergers enabled both to reduce their branch networks and staff, but fears that the establishment of two domestic megabanks would hurt competition have proved groundless, as Mr Thorleif Krarup, chief executive of Unidanmark, notes ruefully. The big banks have a pack of low-cost niche banks yapping at their heels for private customer business, while foreign banks are keen competitors for corporate business. Only a handful of the niche banks are currently earning enough to grow.

With the economy in good shape, the risk of further bank failures in the immediate future does not seem great, but candidates that may hit trouble in a year or two are easily identifiable. They are medium-sized, regional banks with low core-capital ratios. The problem, says Mr Krarup, who is also chairman of the Bankers' Association, is that such banks will not be able to renew their supplementary (tier 2) capital. They will therefore have to prune their costs and their balance sheets to enable them to survive.

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- Production Editor: Philip Sanders

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FUTOP CLEARING CENTRE

THE DANISH SECURITIES CENTRE

DANISH BANKING AND FINANCE II

The failure of the UK merchant banking group, Barings, at the end of February brought stock exchange settlement systems into high relief. In a typical comment, the Frankfurt bourse, in Germany, said that the Barings collapse underlined the importance of having a high quality clearing and settlement system for the security of investors in a financial centre.

But in Denmark, Vaerdipapircentralen (VP), the Danish Securities Centre had seen it all before. Mr Jens Bache, its president, says that the reduction of risk was the very foundation for the establishment of VP, a depository and clearing centre responsible for computer registration of issues, trading and ownership of securities listed on the Copenhagen Stock Exchange, and clearing and settlement of transactions.

Legislation for VP was written in 1980, and it went into operation in January 1983. "When people talked about risk early in the 1980s and associated that with the introduction of computer systems, they immediately thought about computer failure," says Mr Bache.

However, risk is much broader and does not, says Mr Bache, simply consist of imaginary scenarios items such as an aircraft crashing into a computer building or the collapse of a big international merchant bank.

In VP's 1992 annual report, a typical selection of risks was discussed in an article on risk management:

- exposure of material assets to losses caused by fire, explosion, flood, damage, error, omission and other similar perils;
- losses arising from criminal acts (for example, computer fraud);
- liability arising from accidents to or illness of employees associated with their employment;
- liability for death or injury to third parties and or damage to their property; and most importantly,
- consequential losses arising from any of the foregoing.

The establishment of VP eliminated a bottleneck in the Danish market and the settlement system saw a substantial rise in turnover. It went up from DKK600bn to DKK1.700bn in 1993. In 1993, turnover was DKK15,452bn. This also takes in trades in foreign bonds and shares.

Turnover in January 1994 was more than the total of the year 1993. The whole of 1994 produced DKK17,478bn. Mr Bache says that clearance and settlement is so inexpensive, and low in risk that it can be used to eliminate risk in other areas, such as the movement of money between banks.

SETTLEMENT SYSTEMS

Computer deals cut the risks

ees associated with their employment;

● liability for death or injury to third parties and or damage to their property; and most importantly,

● consequential losses arising from any of the foregoing.

The Frankfurt bourse claimed that completion of securities business at the Deutsche Kassenverein within two business days was more efficient than in any other centre in the world. For Denmark, Mr Bache says that three days is the normal period for settlement on the cash market - although all details are reported back to both sides of the trade on day one. Settlement in derivatives, however, is on a day to day basis.

"Denmark was the first country which asked 'who needs paper' and decided to change its laws so that settlement takes place on a computer update," says Mr Bache. The establishment of VP eliminated a bottleneck in the Danish market and the settlement system saw a substantial rise in turnover. It went up from DKK600bn to DKK1.700bn in 1993. In 1993, turnover was DKK15,452bn. This also takes in trades in foreign bonds and shares.

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At VP's inception, the legislature was very nervous; it said that if anything went wrong, of if there were accidental errors or acts of God, the system would have to pay. "However," says Mr Bache, "we haven't had a single claim since we started in 1983."

Before that, the city had been flooded with IOUs, at the time the only practical way of facilitating business: a broker would buy, say, DKK1m of

The securities infrastructure, he says, is now used to move risk, rather than securities around. The risk is represented by repo transactions, with a third party making loans against securities to cover short term risk, rather than one party in a transaction merely trusting to the good name of the other.

Listed Danish bonds have been registered in the VP system since 1983. They were joined by Danish shares, unit certificates and convertible bonds in 1988, and, since mid-June 1989, registration of CSE-listed foreign currency securities has been possible.

All this came out of settlement problems under the old, paper-intensive system.

VP has had to provide a secure data centre, with information on computer disks and back up copies in an off-site storage facility. The centre decided to locate itself half an hour's travel from Copenhagen to get a type and quality of office space - low-rise, business park standard - which was not available in the city centre.

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stock from one institution, sell it to another, and get a cheque - but he would not have the cash to cover for that transaction for, say, half a day.

In addition, with many trades going on, there were difficulties in physical delivery.

There is a general consensus that the CSE will stay competitive by instituting an early elimination of monopolies in the market place. Mr Bache says that the CSE is in the forefront of technological advance and makes a point of being in the same position in the internationalisation process. "We need leading edge technology," he says, "and an infrastructure open to foreign participation."

When VP came into being, he says, its business was all Danish. "Today, if we try to resist internationalisation, we'll soon be overrun." He believes that the market should open up formally to foreign participation but also move from detailed and local rules to build in more flexibility.

VP's depository system now offers co-operation with international settlement organisations such as Euroclear. The centre does systems development, both for the CSE and for Futop, the Danish futures and options market. PBS, the Danish Payment system, and the interbank clearing system are big parts of the Danish securities infrastructure not under VP control, but VP has access to their data banks.

The system is not cheap. The business it currently handles is not big enough for that. VP claims a strong technical structure in its support of the CSE but Mr Bache is not satisfied. "We need to co-ordinate and organise better," he says. "We'll die because of unit costs if we're not smarter in organising ourselves."

William Cochrane

The Copenhagen Stock Exchange (CSE) is hosting a roadshow in Frankfurt and London this week to show off its attractions to foreign investors and traders; it is also in the process of a reform which, last winter, raised the temperature occasionally in Denmark's capital city.

The CSE is one stock exchange, covering bonds, equities and derivatives. The existing system has bourse management reporting to a board of directors which, itself is governed by a financial supervisory authority (some-what like the US SEC, says the Copenhagen establishment); the supervisory authority reports to Mrs Mimi Jakobsen, Denmark's minister for business and industry.

The sticking point in the row on reform is the formation of another tier of authority, a securities council with members of the CSE, issuers, listed companies, bond issuers and investors, which will be slipped between the CSE board and the supervisory authority.

The composition of the CSE board is 60 per cent dealers, 20 per cent issuers and 20 per cent bond issuers. Market professionals are happy with that, says Mr Christian Clausen, managing director and chief executive of Unibank Securities; the issue, he says, is the competence of the securities council which will set rules for all stock exchanges.

Banks and brokers want to see the CSE setting its own rules, and the council as a supervisory body. Investors want the council to be more active.

The nub of the controversy, says Mr Bent Mebus, president of the CSE, is that investors want the opportunity to deal directly to the CSE members, and to trade without using intermediaries. Existing members do not want this. "There has been a threat by some investors to take their business abroad unless their require-



Copenhagen's old stock exchange. Last winter, CSE reform raised temperatures

Photo: Tony Anderson

William Cochrane reports on the stock exchange

Reforms under way

ments are met" he says, pragmatically.

There is also a degree of conflict between bond and equity issuers. The long involvement of the mortgage bond market in the life of Danish citizenry means that, unlike in London and New York, the man in the Copenhagen street will associate "the Stock Exchange" with bonds as well as equities.

There is a very heavy turnover in bonds, says Mr Mebus: it came to about DKK25bn a day during 1994, adding up to DKK6,600bn for the year. Some two-thirds of that was inter-broker business: working direct for the client over the telephone. About one third goes through the stock market.

Against that, the equity market turned over DKK174.4bn last year, or DKK880m a day. This looks small, but the CSE is sensitive to the fact that its equity market, bigger than that of either Norway or Finland, frequently gets less media coverage than its Nordic neighbours.

Denmark has a tight fiscal policy and a firm currency policy and this, says Mr Mebus, has paid off handsomely for investors in Copenhagen's bond markets, where real interest rates have been high: inflation has been nearer 2 than 3 per cent over the past three or four years, while the coupon on bullet government bonds has been between 7 and 9 per cent, indicating anything between a 5 and 7 per cent return before tax.

The other side of the Danish fiscal coin is a high level of personal taxes which was accompanied, until recently by a share transfer duty of 1 per cent of market value.

The duty was halved to 0.5 per cent from last January 1, but there has been a severe temptation for Danish equity investors to take their business abroad: trading in London's Sae International screen based market gave them an alternative where Danish stocks were concerned, and a general institutional move into foreign equities provided another. Currently, the proportion of Danish shares held by institutional investors is estimated to be between 32% and 37% per cent. The geographical

change in the institutions' equity mix may be part of a healthy evolution for the CSE, with foreign investors coming in to take their place in a generally expanding Danish equity market. But it wants a degree of stability in that foreign interest.

In the bond market, Mr Mebus reckons that 35 per cent of Danish government bonds are owned by foreign investors,

mainly based in the UK, or with UK representatives. Reflecting this, 30-35 per cent of government bond trading went through the inter-dealer broker route in London until recently.

However, last September, the CSE instituted the new Elektrobörser system, an inter-dealer/broker system open only for market trading in bond series. "After this," says Mr Mebus, "I think that some of the trade being done through London returned home, because Danish intermediaries were finding their counterparts here, rather than through London." The position should improve further from next January 1, when London brokers are expected to be able to trade directly through the CSE.

When the EU investment services directive is implemented, says Mr Mebus, there will be no need to be listed elsewhere in Europe. "There is a marketing advantage in foreign listings for Danish companies," he says, "but they are more likely to go to the US, like Tele Danmark, Novo Nordisk, and ISS."

CSE reform is still in the pipeline. "We have a monopoly today," says Mr Mebus, "but in future it will be possible to set up more stock exchanges in Denmark, if you have the experience and the money: a minimum of DKK40m."

"We don't need more than one exchange. There could be three: bonds, equities and derivatives, but I don't think that this will happen; I think that the possibility (of a competing exchange) will exist to keep us efficient as it does in Stockholm although, there, they have two markets, the SSE, and options and futures."

Meanwhile the CSE is in Frankfurt and London this week to demonstrate its huge bond market, arguably the fourth biggest in Europe; its equity market, the second biggest in Scandinavia; its efficient trading and clearing system; and its efficient derivatives market.

Mr Mebus wants to bring foreigners in. It will be possible for foreigners to be members from the beginning of next year. "We have the system," he says. "All we need is the legislation."

Futop changes tested

Futop, the Danish market for listed futures and options, came into being in 1988. A new clearing system is being tested for the market, before launch at the end of next month.

Among the biggest improvements are:

- a new margin system which follows international standards, which will provide increased security and, in most cases, a lower margin requirement;
- the opportunity for clients to trade with several affiliated members but settle with a single clearing member;
- the opportunity to have additional payments guaranteed; and,
- on sight, the opportunity to introduce new Futop instruments.

Insiders say that it would be impossible to reallocate a Danish portfolio without, first, buying the KFX index future. A new entrant from abroad would have to buy in size, and pay a premium. But if he or she bought KFX futures first, they would have their exposure.

Long bond futures and KFX futures account for 70 to 80 per cent of Futop volume. It is claimed to be one of the safest systems in the world, with built-in guarantees.

The guarantee, issued within a few minutes of the trade being done provides that, if, for example, a clearing member goes bankrupt or suspends payments, Futop will take over and fulfil the contract.

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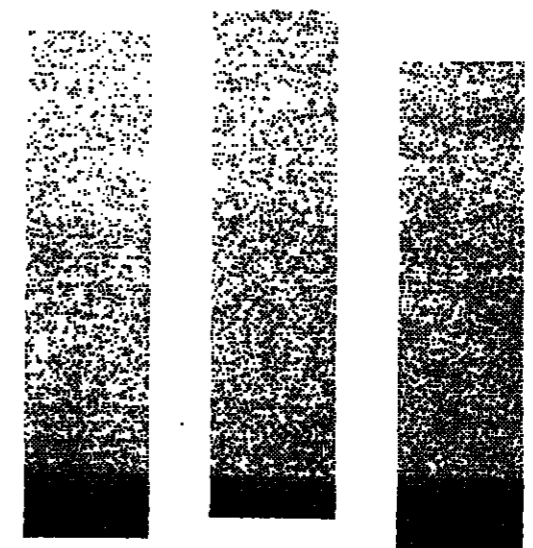
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DANISH BANKING AND FINANCE III

THE BOND MARKET

'Alternative exchange' threat

In mid-February, Danish mortgage banks warned the government and the country's financial establishment that if reforms to the Copenhagen Stock Exchange (CSE) were not satisfactory, they would set up an alternative exchange for bond trading, writes William Cochrane.

The warning underlined the scale and importance of the Danish bond market, the world's ninth-biggest for bonds and, within that, the size of the mortgage bond market which has been a force in the economy for the past 200 years.

In 1797, the city of Copenhagen, then built mostly of wood, was devastated by a serious fire and the immense damage to property overwhelmed the then small domestic insurance market. As a result of this, people raised funds to rebuild by pooling their financing requirements and issuing bonds, creating the mortgage bond market in the process.

The first real mortgage loan act followed in 1850, says Mr Søren Holm, a senior vice-president at Nykredit, Denmark's biggest mortgage loan institution. There has been a strong mortgage bond market since the middle of the 19th century, he says, and the founding principles are the same today as they were 150 years ago.

The man in the street buys a house for, say, DKK1m. He goes to a mortgage credit institution, gets a 30-year loan for 80 per cent of its value, relatively cheaply on a fixed interest basis; the mortgage bank sells bonds which balance this loan, in series through the stock market. So he is used to the concept of investment in

According to Mr Rohde, reform is a three-party game, involving traders, issuers and investors

bonds, and would invest in government bonds, says Mr Bent Mehus, president of the CSE, because he has met the concept in the mortgage bond arena.

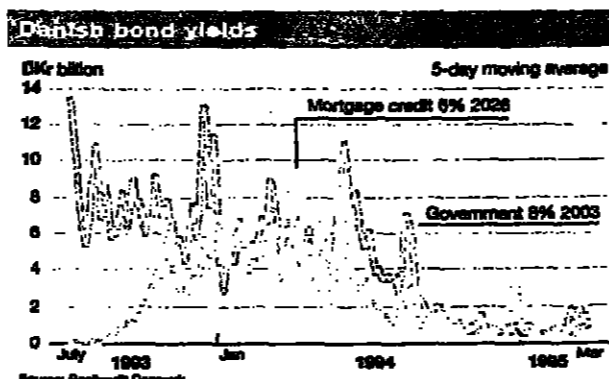
The mortgage bond institutions' threat to go it alone has been seen as negotiation by threat; and Mr Lars Rohde, executive director of Realkredit Danmark, the country's second-largest mortgage bond

institution, chooses his words carefully. "The CSE monopoly will be abolished", he says, "and, in principle, it will be possible for anyone to set up a competing stock exchange. We have said that we're happy that these new opportunities will be part of the new legislation."

According to Mr Rohde, reform is a three-party game, involving traders, issuers and investors. But it has its complications. "As bond issuers in general and as a member of the Association of Mortgage Institutions, we are an issuer", he says, "but we have no common interest with issuers of equity."

The linked mortgage bond and residential housing markets in Denmark, say their practitioners, have strong similarities with those in Germany, Denmark, Sweden and, to a smaller extent, the US.

However, the market has grown. Nykredit calculates that, at the end of 1994, there were bonds worth more than



DKK1,700bn in the Danish market of which DKK850.6bn, or almost exactly 50 per cent, were mortgage bonds. Companies and institutions buy the bulk of the issues.

The business has seen testing times. It ran into crisis from the late 1980s: credit assessment in Denmark is based on the buildings, rather than on the owner and, in the years 1986-91, Danish residen-

tial housing values fell by about 35 per cent.

Having cleared that hurdle, the sector ran into more problems in 1994. Two or three years ago, government deficits had been cut, inflation was going down, the yield spread against German bonds was down to 25 basis points at one stage and Danish bonds attracted a lot of domestic and foreign buying.

But early last year the US started lifting rates. Foreign investors sold Danish government bonds while, within Denmark, heavy supply pressure of mortgage bonds continued from late 1993 as borrowers converted older, high coupon bonds. "The positive side of that," says Nykredit's Mr Holm, "is that we now have, in the 5 per cent 2028 series, one of the largest bond series in the world."

In the meantime, prices of both government and mortgage bonds were hit. Currently, Danish 30-year mortgage bonds offer a 5.7 per cent yield and foreign ownership is low after a painful year in 1994 for mortgage bond institutions, which had to take heavy losses on their own bond portfolios last year. Realkredit Danmark recorded a profit of DKK409m for 1994, down from DKK1.53bn in 1993.

Mortgage bond institutions now have strategic choices to make. As a group, they need to make their economic weight

felt in the Danish financial system. They are also keen to attract foreign investment: foreign bond ownership is now only 3.4 per cent after speculators burnt fingers last year.

There are, in addition, corporate decisions. Nykredit, the biggest of the bond issuers, and restlessly innovative, has been moving away from the

Mortgage bond issuers have a mechanism to help them ride out the economic waves

early 1990s financial supermarket concept. However, it has acquired a smaller, but international banking business; it is exploring international credit ratings for itself and its bonds; it now deals on the CSE and it is considering going fully corporate, as a number of UK mutual institutions have done in recent years.

Nykredit is not alone in its corporate ambitions. According

to Den Danske Bank a smaller institution, BRFkredit, is ranged along with Nykredit among candidates for a CSE equity listing.

Realkredit's Mr Rohde is careful about the rating question, calling it a "strategic choice", but he is dismissive about general banking. "We're not going to create a bank subsidiary", he says. "We think that it is possible to remain a mortgage bank, and stay profitable; you could say," he smiles, "that, to an extent, Denmark is overbanked."

Meanwhile, mortgage bond issuers have a mechanism to help them ride out the economic waves. Although loans are on a fixed interest basis and have a fixed redemption value, borrowers also pay a so-called "administrative contribution", which is variable between 0.5 and 0.75 per cent.

Since 1981, the Danish residential market has improved considerably. After the wave of mortgage conversions in recent years, average credit quality is now much better than in years before. Realkredit's old loans had, typically, 10, 12 or 15 years of life remaining at effective yields of 10 to 18 or even 19 per cent effective yields. These were refinanced at 6.5, 7 and 8 per cent and a lot of people took new, 30-year terms.

PROFILE: NYKREDIT

Bank manages on two legs



Rasmussen: 'We are in all of the property market places'

We're a peculiar animal, the second largest financial institution in Denmark and owned by an association of borrowers," says Mr Mogens Munk Rasmussen, managing director and chief executive of Nykredit, the biggest mortgage institution in the country.

Mr Rasmussen has plans for the group. After an abortive early 1990s attempt to create a so-called financial supermarket, Nykredit has had to "go it alone", developing its own international and commercial banking leg and buying stakes in other institutions, including one of up to 15 per cent in Bkuben, Denmark's biggest savings bank and the country's third biggest commercial bank overall.

In 1989, Nykredit converted from a self-owning association to a joint stock company, with effect from December 1 of that year. The holding company, however, is 91.7 per cent owned by Foreningen Nykredit, the institution which looks after the interests of both the borrowers and the bondholders.

"We've discussed at length how to move from this position," says Mr Rasmussen, "and whether it's a good idea to gain a stock market quotation over the next two or three years (this, perhaps, is why Den Danske Bank analysts

have speculated that the group, along with its smaller competitor, BRFkredit, might make its equity market debut in 1995.

But the company is not in that much of a hurry. "We have no need of capital," says Mr Rasmussen. "But we've seen the process happen in England, and I think we'll go through the same sort of development."

Alliances to create broad financial service groups - the so-called financial supermarket concept - were being discussed in Denmark, as elsewhere, towards the end of the 1980s.

In 1991, Nykredit formed a joint holding company with Tryg, the insurance company; it was hoped then that Unibank, Denmark's second biggest commercial bank, would join them to make a third leg of the financial tripod. Unfortunately,

in November 1992 after heavy losses at Unidank, Unibank's holding company, the trio had to abandon merger plans which would have created the largest financial institution in Denmark.

However, the group has struck out on its own and now has three selling channels in the private residential property business:

● First, its own branches. Nykredit has seven regional offices organising 44 local branches throughout Denmark.

● Secondly, though it steered clear of direct attack on the big commercial banks in the private customer market, where competition is heavy, Nykredit made agreements with 54 branches covering more than 800 branches in Denmark.

● Thirdly, the group is also big in the estate agency busi-

	Capital & reserves (DKKbn)	Balance sheet (DKKbn)
The Nykredit Group	12.8	263
Realkredit Danmark	10.8	331
BRFkredit	4.0	133
Den Danske Bank	20.3	336
Unidank	13.5	222
Bkuben	2.3	96
Jyske Bank	2.8	48

Source: Nykredit

ness, through its extravagantly acronymized NY*BO*E subsidiary, whose outlets account for one-third of the Danish residential real estate market. "We are in all of the property market places," says Mr Rasmussen, "residential, commercial,

rent-subsidised residential and agriculture."

On the commercial side there is Nykreditbank, based on a small, specialised commercial bank acquired in the summer of last year; this bank is being reshaped with off-

shoots in London and Frankfurt. Nykreditbank is now a specialised commercial lender serving 110 big customers in Danish industry, many of whom are doing business abroad.

Like its competitors, the group's 1994 results were good in parts. The positive impact of remortgaging activities on commissions and fees led to a 28 per cent rise, from DKK4.8bn to DKK4.93bn, in the group's net income from interests and commissions in 1994. Also on the positive side, write-offs and loan loss provisions fell by just over 40 per cent, from DKK2.345bn in 1993 to DKK1.37bn last year.

On the downside, Nykredit made a loss of DKK2.17bn on securities and shareholdings last year, against a gain of DKK1.605bn previously. Overall, pre-tax profits fell from

DKK2.05bn to DKK724m, and net profits from DKK1.325bn to DKK503m.

As to the balance sheet, Nykredit had a conflict with the state on the status of its pre-1972 reserves. The group won its case recently and the result was a retrospective increase of DKK4bn, from DKK14.45bn to DKK18.45bn, in capital and reserves at the end of 1993. The figure rose to DKK18.76bn at the end of 1994.

The group's advisers are working with Goldman Sachs and Standard and Poors on whether to get ratings for NYK, or NYK bonds.

It is looking for long-term investors. "Early last year about 10 per cent of our bonds were abroad," notes Mr Rasmussen, "but a lot of the more speculative investors sold." Like American investors elsewhere, early this year, they were worried by the apparent complexities of the Danish bond market, and the fear of inflation in some European countries which affected values across the continent.

William Cochrane

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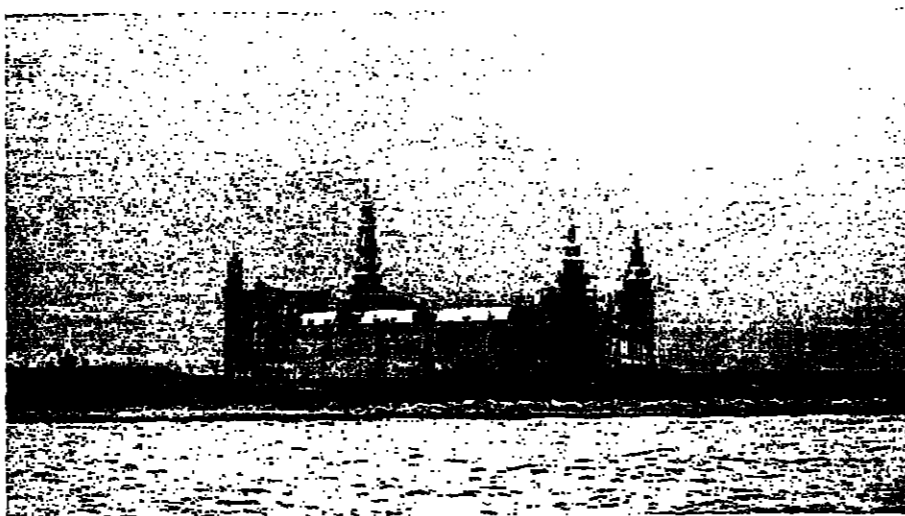
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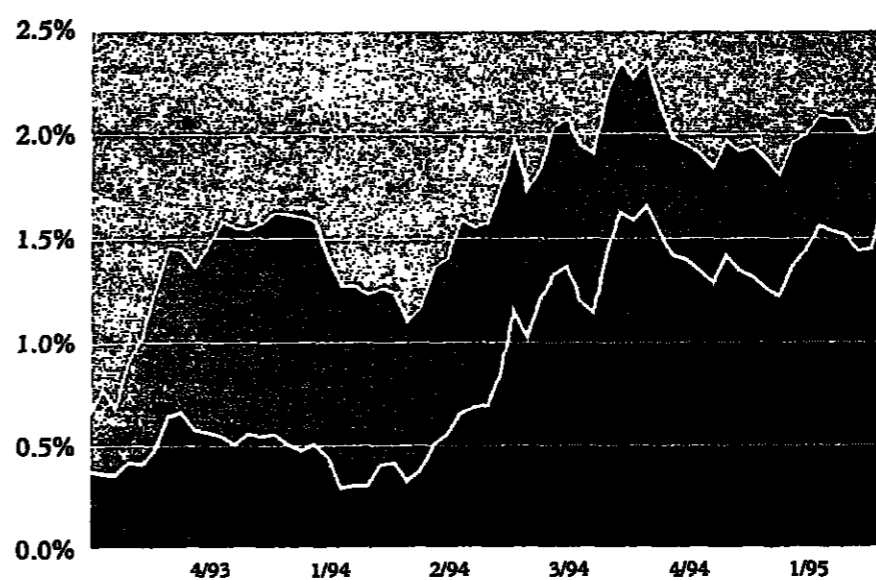
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Nykredit

DANISH BANKING AND FINANCE IV

Hilary Barnes examines the paradoxes of economic policy

From a gallop to a trot

Denmark's economic policy is based on a paradox: it has obtained an opt-out from the final phase of the European and Monetary Union, as laid down in the Maastricht Treaty, but it wishes to be regarded as one of those which best qualifies to become a founding member of the ECU.

Market analysts and foreign exchange dealers are charmed by the promise to be good but worried by the option to turn bad, a dichotomy which is seen by some as the best explanation for the yield gap of about 150 basis points between returns on Danish and German government bonds.

"We are doing everything we can to establish the stability which characterises Germany, Holland and Austria," said Mrs Marianne Jelved, economy minister.

The rewards, measured by the yield gap, are proving elusive. However, the Krone has performed relatively well. In the aftermath of the break-down of the European Exchange Rate Mechanism in August, 1993, the Krone, after a brief dip, held its own. It also has survived relatively unscathed in the turbulence in the markets this spring.

By comparison with most EU countries, the Danish fundamentals look respectable. Inflation in 1994 was about 2.2 per cent. The surplus of DKK22bn on the current account is about 3.5 per cent of GDP, and the trade surplus (on both goods and services), at DKK57bn, was over eight per cent of GDP.

The general government budget (central and local gov-

ernment) is in deficit, but it is relatively manageable, at about 4.4 per cent of GDP in 1994.

Fiscal policy, however, is set on course to reduce the deficit to about three per cent of GDP this year and well below three per cent in 1996-97, putting it within the Maastricht Treaty's convergence criteria for third-phase ECU participation.

Denmark will also meet the convergence criteria's measure for the ratio of debt to GDP, a maximum of 60 per cent, though this has required some special bargaining with the EU over the technicalities of defining the Danish debt, which on paper is about 80 per cent of GDP.

When Mrs Jelved, who is leader of the small Radical Liberal government coalition party, considers the persistence of the yield gap between Germany and Denmark she points to inflation expectations aroused by exceptionally strong economic growth in 1994, uncertainty about this spring's round of collective wage bargaining, and the tendency of the financial markets to lump all the Nordic countries together. In other words, the bad press which Sweden is getting these days washes off on Denmark.

Mrs Jelved is fairly sanguine about the outcome of the wage negotiations. "The government's inflation forecast of 2.4 per cent in 1995 will hold good," she maintains. Her forecast is at the optimistic end of the scale, but even the more pessimistic forecasters do not see inflation in 1995 going much above 2.7 per cent,

though some predict an acceleration to over three per cent in 1996 and Svenska Handelsbanken's Copenhagen branch expects it to increase to four per cent in 1997.

The wage settlements provide for increases in wage costs of about three per cent a year in 1995 and 1996, but in the industrial sector the final impact on wage formation depends on local company or plant level negotiations. With exports doing well and demand for labour growing, wage pressures may build up.

But, said Mrs Jelved, "the level of settlements appears to be good enough for us to be able to maintain our export competitiveness, although this depends partly on developments in other countries, especially Germany".

The economy, meanwhile, is making a strong recovery. The GDP growth rate in 1994 was about 4.5 per cent, spurred by an increase in both private consumption and export demand by about 7.5 per cent. The boom followed seven years of low growth, and demand in 1994 was given a substantial boost by income tax reductions.

The racing start which fiscal policy gave to demand in 1994 (an election year) is being replaced by a successive tightening of fiscal policy in 1995 and through to 1997, when indirect taxes, especially of the "green" variety, are being increased significantly.

The economy will therefore move from a gallop to a trot, with the GDP growth rate mod-

erating to about 3.7 per cent in 1995 and 3.0 per cent in 1996, according to the government forecasts. Svenska Handelsbanken in Copenhagen, on the other hand, thinks the fiscal tightening will be too modest, with strong private consumption growth keeping the GDP growth rate at 4.0 per cent in both 1995 and 1996 before slowing again in 1997.

The longer-term outlook is dominated by the related problems of high unemployment and the costs of the social welfare system. About one in four of the population of working age is financed through the social welfare system, including unemployment benefits, student grants, early retirement benefits, disability pensions and other cash benefits.

Unemployment, as officially measured, is just over 11 per cent and peaked in the spring of 1994 at 12.6 per cent, but if one includes people put into labour market training or make-work schemes and those on various early retirement or other leave-from-work schemes, a truer figure for unemployment is 17-18 per cent, according to the OECD.

There is a clear recognition among leading politicians of most parties that the welfare system must be modified in order to get more people off welfare and into jobs, but modifying the system is politically difficult (it is not a vote-winner) and will take time.

On this issue, said Mrs Jelved, "just because we got some things wrong over the past 20 years, it does not mean that we shall get them wrong over the next 20 years".

William Cochrane on prospects for Copenhagen's equity market

Time to tap the public purse

Just before last Christmas, an analysts' poll of the Copenhagen equity market suggested that the KFX index would rise by some 20 per cent this year; the same poll, unfortunately, predicted a 15 per cent gain for 1994 when the KFX fell by 10.4 per cent.

Mr Meyens Dalhoff, head of equity sales at Den Danske Bank, says that his house is projecting a KFX target of 103 to 108 for the end of this year, representing a recovery of between 8 and 13 per cent.

Built into the bank's assumptions are the prospects of a big rise in earnings after a 1994 "distorted" by bond market losses: about 15 per cent of the KFX is accounted for by banks, which have heavy bond market holdings as a matter of course. The mortgage bond market was showing falls of up to 20 per cent last year and, says Mr Dalhoff, much of the proceeds of corporate rights issues raised for long-term expansion was parked in the bond markets, with painful results.

Den Danske Bank forecasts earnings growth for the market of 38 per cent this year and 17 per cent in 1996. It believes long-term interest rates will bottom out shortly and that earnings prospects, increasingly, will set the trend in share prices.

Danish equities are notable for their lack of volatility, says Mr Bent Mebus, president of the Copenhagen Stock Exchange (CSE). He explains that this is because a sizeable proportion of equities - 30 to 40 per cent, at a guess - are held by Danish institutional investors that, compared to foreigners, are reluctant to trade.

In addition, says Mr Mebus, a lot of big companies fund themselves with loans that are secured on real estate and raised through the mortgage bond market. This allows them to indulge another corporate characteristic - the desire for secrecy: companies can get money without going to the public and giving the detailed information that an equity listing entails.

On information, notes Mr Mebus, the CSE has similar requirements for listed companies to those of the US, or the UK.

The corporate economy in Denmark is highly individual. There are a lot of medium-sized businesses, but only a few very big groups, and these tend to be owned by families and foundations.

However, says Mr Mebus, the CSE is encouraging the introduction of more equity into the Danish corporate economy, and into institutional and private investment portfolios. He argues that it is better for corporate health and the capacity of the banking system for companies to tap the public purse at a propitious time, as it is now, rather than when the funder is in dire need.

The supply side of the equity market, says Mr Dalhoff, was severely distorted last year by the partial privatisation of Tele Danmark, the biggest added up to \$3bn (DKK17.5bn) with half of the company sold off, and accounted for more than half of the near-DKK20bn total issuance of new shares and convertible bonds in 1994.

The other main public offers last year were Copenhagen Airport and Unibank. There was also a Danisco convertible and industrial cleaning group ISS issued B shares on the New York stock exchange.

This year, says the bank, the new issue market should stay vigorous. Topdanmark, an insurer, resolved a refinancing problem towards the end of 1994 and has scheduled a DKK175m rights issue for 1995.

Danske's candidates for a listing on the CSE in 1995 include Tryk Forsikring, another insurance company and a major shareholder in Topdanmark; Flack Holding, the vehicle rescue, firefighting and storm damage group and Nykredit, the leading mortgage banking institution (although Nykredit says that it is unlikely

to make the 1995 list). The bank reckons that, providing the markets spring no surprises, 1995 volume in the issuance market could be in the DKK10bn-DKK15bn range. However, this will not be enough to satisfy domestic institutions. Danish institutions are investing more in equities abroad, says Mr Flemming Jensen, managing director of Riksbank Securities, Denmark's third-largest bank, who is also chairman of Denmark's Association of Stockbrokers. There are no official statistics, he says, but more aggressive funds may have up to 20 per cent of their total funds in foreign equities.

He does not think that CSE reforms will affect the equity market in a big way. The worst that could happen in reaction is that Danish institutions could move outside the Danish equity market. But that, to an extent, is already happening.

The sensible answer is to attract more foreign investors to Copenhagen, say the professionals; and Danish companies themselves could take a hand in that.

For instance, equity dividend yields are very low compared with those of other countries. Den Danske Bank puts the Danish equity market on a prospective yield of 1.6 per cent for 1995, compared with 3.7 per cent in the Netherlands and 3 per cent in Germany. This is partly due to tradition, and partly to the former tax regime. Doubled taxation on dividends was only abolished four or five years ago.

Danske Bank has estimated payout ratios for Denmark (27.2 per cent of earnings per share) and a range of European countries: France and Germany, it reckons, will have payout ratios of 43 and 44 per cent for last year, the Netherlands will have 50 per cent, and the UK as much as 65 per cent.

This looks like a hard gap to bridge. However, Tele Danmark has said that it will pay out 65 per cent of its earnings and some of Denmark's other companies are considering this proposition.

Danes boast Europe's best pension schemes, writes Hilary Barnes

Security for the elderly

Whether through sound thinking or historical accident, Denmark has a pensions saving system which leaves it in better shape to meet the challenge of an ageing population than most other European countries.

"Our system is unique in Europe in that it is based almost entirely on the principle that the benefit is defined by the contributions made to pension savings," said Mr Erik Adolphsen, managing director of Industriens Pensionsforsikring, a pension savings fund for more than 200,000 blue-collar workers in manufacturing industry.

Elsewhere in Europe, he said, most public pension savings schemes were based on the "defined-benefit" principle, under which a promise of a benefit level is made, but the schemes are financed on a pay-as-you-go basis and benefits are not related to contributions.

"We are in the happy situation of having avoided the fate which faces a generation in the rest of Europe, who will have to pay twice for retirement pensions - once to pay for those who are in retirement and once in contributions to finance their own future pension benefits," said Mr Adolphsen.

A sound pension system does not in itself solve the basic problem which arises as a result of an ageing population: the shrinking population of working age and the increase in the burden of support imposed by the elderly. But it makes the problem facing Denmark a little less daunting than it is in other countries.

Denmark's universal old age pension scheme, financed out of tax revenue, is and will remain a basic pillar of the system. This is a pay-as-you-go system, the level of benefit determined by the government at any given period. Almost all the other pension savings programmes are "contribution-defined". This includes the National Labour Market Supplementary Pension Fund (ATP), to which every employed person, including the self-employed, has contributed since the fund was established in 1964.

The contribution, however, is modest flat-rate, currently DKK2,332 a year, or about one per cent of an ordinary annual wage income. The benefit, even when the system matures, will be quite modest. The ATP is seen essentially as an exten-

sion of the safety net extended by the national old age pension. Voluntary individual pension and life assurance savings are made on an actuarial basis, and as there is a tax incentive (reduced by the present government) to use these schemes, they are popular.

There is also a tax penalty. Since 1982, private pension savings and life assurance policies have been subject to a "real-interest rate" tax. If the real, after-inflation yield exceeds 3 per cent in any year, the "excess" yield is paid in tax. The revenue from this tax, which taxes future rather than present consumption, has been a principal factor in strengthening government finances since the early 1980s.

It is on company or industry-based labour market savings schemes that Denmark scores over the rest of Europe. Almost all salaried personnel in the public as well as the private sector are covered by pension savings schemes, both the old and the new, are run by funds which are legally independent of the company or government organisation whose employees are covered. The savings belong to the individual, which means that if a person changes employer, the savings follow.

Women receive the same benefit as men, although women can expect to live four years longer on average.

The earlier pay-as-you-go schemes are being discontinued. One of the results of the collective wage negotiations in 1991 was a decision to set up pension savings funds for virtually all blue-collar workers as well.

Contributions will typically rise to about 3 per cent in 1995, but they are expected to rise gradually to around 9 per cent, the level needed to provide a satisfactory benefit.

Although these programmes

were set up by collective agreements between the employers and the trade unions, employers which are a party to the collective agreements must pay contributions for all employees, whether or not they are members of the trade union, and coverage is total, as there are no health criteria for coverage.

The collective savings schemes, both the old and the new, are run by funds which are legally independent of the company or government organisation whose employees are covered. The savings belong to the individual, which means that if a person changes employer, the savings follow.

Women receive the same benefit as men, although women can expect to live four years longer on average.

The macro-economic consequences of the growth of pension savings funds pose an intriguing question. Mr Adolphsen argues that the funds will lead to a higher savings ratio, and hence to a higher potential level of investment in the private sector.

The pension funds, meanwhile, are increasingly investing as a source of investment capital, as an ever bigger share of the savings is being invested in real assets - mainly equities - rather than bonds.

The pension funds are permitted to invest a maximum 40 per cent of their assets in shares, but there is a long way to go before they reach this level. To spread the risk, a rising share of the investment is being made in foreign equities.

Alfred Berg

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 Public Offer for The ESAB GROUP SEK 3,380 million Advised to Charter August 1994	 Divestment of SAS Service Partner (airline catering) to Swissair Advised to SAS August 1994	 Proposed sale of an equity stake in A/S EKR Elspekredit Forsikringselskab Advised to the Kingdom of Denmark Appointed August 1994
 Zero-coupon bonds due October 2004 SEK 635 million With the benefit of a guarantee from the Kingdom of Denmark and the Kingdom of Sweden Arranger October 1994	 Initial Public Offer and Instrumental Placemnt SEK 7,410 million Joint Lead Manager October 1994	 New issue FIM 420 million Co-Lead Manager January 1995

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Mrs Niels Larsen, managing director of the FIH - Finansierings Institut for Industri og Haandvaerk, or Finance for Danish Industry - likes to emphasise that fact. However, the FIH Group is not a normal universal bank, but a specialist institution providing finance for manufacturing industries.

In terms of the Danish market, the FIH is important. Two-thirds of the country's manufacturing companies are among its clients. Its loans are equal to 40 per cent of the long-term debt of Denmark's industrial companies or 30 per cent of investment by Danish industry.

All the group's loans are made in kroner, but all its funding is made abroad. One of its more interesting large loans last year was in Italian lire, sold all over the world on the strength of the FIH's good name, and via swaps and other instruments converted to kroner on favourable terms. Much of the funding is done through FIH's Luxembourg subsidiary, FIH International, and FIH loans are heavily subscribed to by the mythical Belgian dentist. "We are a household name in the Benelux countries," says Mr Larsen.

The FIH was started in 1958 on the initiative of Danmarks Nationalbank (central bank) to fill what was seen as a gap in the financing needs of industry between the commercial banks and the mortgage credit institutions, which at that time were very cautious about lending at all to industry. Six holders of the "A" shares control the group, the Nationalbank, Den Danske Bank, Unidanmark, Birkubens, the Danish Employers' Association and the National Supplementary Labour Market Pension Fund. The FIH's "B" shares are listed on the Copenhagen Stock Exchange, carrying one vote to every 10 votes for the A shares.

Although not a government institution, the FIH is charged from time to time with administering state industrial



Den Danske Bank is one of the six holders of the "A" shares which control the group

Picture: Tony Anderson

finance schemes - for small companies, for energy-saving and environmental investments, for example. These, however, comprise only about 7-8 per cent of its lending, and the FIH carries the risk, which is a way of ensuring that the taxpayer's money is put into sound projects. Its record is

good. "We have never made an annual loss, and we do not expect ever to do so, and we have very good results by comparison with the commercial or mortgage banks," says Mr Larsen. The good comparative performance is explained partly by the fact that the FIH does not lend for property develop-

ments or to private customers, two of the areas in which the commercial banks have taken heavy losses in the 1990s. Manufacturing companies, on the other hand, have performed quite well in the 1990s, with only one or two spectacular failures, for although the domestic market situation was

poor throughout the period 1987-93, export markets were good, "especially the fantastic German market," as Mr Larsen puts it.

On the other hand, the strong recovery in domestic demand in 1994 has not yet had a significant impact on the FIH. Lending remained muted because business investment, which is at a historically very low level, has not begun to recover. But Mr Larsen, along with many others in the finance industry, believes that with the spring's collective wage bargaining out of the way, investment will begin to increase again later this year.

From an investor's point of view, FIH has performed relatively well since listing its "B" shares in 1988. Return on equity from 1989 to 1993 varied from 17.8 to 14.4 per cent, well above the return on government bonds, but it dipped to 8.7 per cent in 1994, when, like all the other banks, the FIH took a DKr197m loss, as unrealised losses on securities held. That helped to explain the fall in pre-tax profits to DKr261m from DKr472m in 1993. Eliminating the portfolio adjustment item, profits rose to DKr458m from DKr370m in 1993, causing the board to remark that "1994 was a satisfactory year for the FIH". The 10 per cent dividend will be maintained.

Loans last year increased by DKr200m to DKr23.9bn, in spite of intensive competition in the financial sector and a decline in manufacturing industry's borrowing requirements. The FIH will take up competition from the mortgage and commercial banks by setting up its own bond-issuing mortgage finance subsidiary this year, when lending activity is expected to pick up.

Mr Larsen names three factors behind the low industrial investment level so far: excess capacity after a long recession, high real rates of interest on long-term borrowing, and a generally cautious attitude to debt after a difficult period since the late 1980s. "But when we talk to the companies, they are very optimistic, so there can only be an increase," he says.

Hilary Barnes

The Danish approach to failed bank rescues

Manning the lifeboats

There were no casualties among the larger Danish banks as a result of the losses sustained in the first years of the 1990s, but there were a number of casualties among smaller banks and savings banks, writes Hilary Barnes.

With few exceptions, troubled banks were taken over by bigger and stronger banks. Depositors, who are covered by a deposit insurance guarantee for amounts up to DKr250,000, did not lose their money, but in some cases investors did, especially bank customers who bought bonds issued by two Jutland banks, Himmerlandsbanken and Varde Bank, in a vain effort to shore up capital adequacy ratios.

Over the past half century, it has been the general practice that if a bank or savings bank has overreached itself, it is absorbed by a stronger bank.

There have been a few cases in which banks have been liquidated. Last year a Faroese bank, Fossbank, and a very small co-operative bank in Jutland were allowed to go bankrupt. Where banks with a significant local or regional importance have run into trouble, however, the government, the Nationalbank and the Finance Industry Supervisory Authority have invariably combined forces to find a rescuer.

But recently the economic problems of the banks in general, the tough competitive climate between the banks, and the extent of structural rationalisation which has taken place over the years has produced a situation in which the healthy banks are no longer interested in taking over weaker banks.

"The big banks are not interested in increasing their market shares. The medium-sized banks are in the midst of a process of pruning their balance sheets, so the situation is very difficult," said Mr Thorleif Krump, who besides being chief executive of Unidanmark is chairman of the Danish banker's association.

Some of the medium-sized regional banks are among

those with the weakest balance sheets. Their equity capital has been badly eroded over the past five years and they are therefore in no position even to consider coming to the aid of anyone else.

Fortunately, the likelihood of failures is receding. The banks are recovering in step with the general economic recovery and their bad loss provisions are falling rapidly. Recent bank rescue efforts also ran into political complications, and these have not enhanced the appetite of healthy banks to come to the rescue of mismanaged colleagues.

The government has recognised that there is a harsher climate in which bank rescues may not be so easy to arrange as in the past. Legislation is currently going through the Folketing which is intended to reduce the risk of bank collapses.

The banks are not entirely satisfied with the measures, which give increased power to the finance industry supervisory authority to intervene in the running of banks, more particularly by giving the supervisors, who already impose a very conservative provisions policy on the banks, additional powers to order banks to make provisions.

This worries the banker's association. "Authorities will be transferred to the supervisors which rightly belong with bank management... Management and the responsibility for management must rest with the bank and with the bank alone," according to the banker's association.

The deposit guarantee fund will be given powers to make funds available for saving a bank from collapse if this would be cheaper for the fund than allowing the bank to go bankrupt. The depositor guarantee will go up to DKr300,000 per depositor.

Several types of deposit are, besides, fully guaranteed, including various forms of pension savings and savings accounts earmarked for education and house-purchase.

As the guarantee is financed by the banks jointly, the Banker's Association grumbles that the system constitutes a moral hazard, reducing pressure on badly-run banks to improve their ways.

A self-assessment system, by which each bank will be able to compare its own performance, as measured by 28 key variables, with the average for the sector is also being introduced. It will be operated by the finance industry supervisors, who will advise each bank on a quarterly basis, starting in March, 1995, on how it is doing. It will be up to the individual bank to decide whether to publish its performance.

Political factors have strengthened the reluctance to rescue. In August, 1993, Sparekassen Nordjylland (Spar Nord) agreed under pressure from the government and the financial supervisory authority to avert the closure of Himmerlandsbanken, a bank serving the Jutland town of Hobro. Spar Nord made a DKr173m write-off against taxes a condition of the rescue, a condition to which the authorities agreed in late-night bargaining hours before a decision on whether to open the bank's doors next day had to be taken.

But a political gadfly, Mrs Kirsten Jacobsen, member of the Folketing for the right-wing Progress Party, smelled a rat. The write-off could only be a legal, she rightly claimed, if Spar Nord was taking over all the assets of Himmerlandsbanken, which it was not. The taxation minister at the time, Mr Ole Stavad, was politically pilloried for going along with the write-off and finally, more than a year later, was forced to resign. A seemingly endless series of hearings is still going on to establish the facts of the case and to assign responsibility. The conclusion which the banking community has drawn from the experience is that a promise given by the government cannot necessarily be trusted.

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DANISH BANKING AND FINANCE VI

PROFILE: CODAN

Hafnia buy may lead to more

Mr Peter Zobel, chief executive of Codan, is feeling smug about his company's 1993 purchase of fellow Danish insurer, Hafnia, he is doing his best not to show it, writes Christopher Brown-Humes.

The acquisition for DKr1bn is widely thought to have been a bargain although, given the extent of Hafnia's problems, it might not have appeared so at the time.

"It was the insurance deal of the century," says Mr Martin Gottlob, an insurance analyst with Svenska Handelsbanken in Copenhagen, pointing out that the value of Hafnia's share portfolio rose by the same amount as the purchase price in six months after the deal was concluded.

Mr Zobel, though, is not the self-congratulatory type. He clearly believes that, two years after the event, most people are more concerned about whether Codan's financial figures are meeting expectations rather than whether Hafnia was a good buy. The purchase will only prove itself in the longer term, he adds.

The acquisition has transformed Codan because Hafnia was twice its size. Its gen-

eral (non-life) insurance premiums increased from DKr1.25bn in 1992 to DKr1.8bn last year. Its share of the Danish non-life market has risen from 5 per cent to 17 per cent, and its share of the life market from 5 per cent to 12 per cent. The group is now the leading Danish non-life insurer, having been only fifth or sixth in size before the purchase.

Hafnia was Codan's reward for not making the same mistakes that many of its domestic rivals did in the late 1980s and early 1990s. Hafnia, Baltica and Tøndermark all made over-ambitious or wrongly-timed investments in banks, property and other insurance groups. They ended up paying a heavy price for them. Hafnia Holding, the parent company of the insur-

ance concern, was brought to its knees by its purchase of 44 per cent stake in Baltica, its main domestic rival, and a 15 per cent stake in Skandia, the big Swedish insurer.

Mr Zobel says Codan did not follow the fashion because its policy has always been to stick to insurance. But he adds: "Of course we can say we were wise not doing it, but maybe the truth is that we would never have been allowed to do it." This is an allusion to the group's main owner, the British group Sun Alliance, which owns 70 per cent of the company.

Whatever the truth of the matter, Codan had the financial strength to mount the takeover of Hafnia in 1993 at a time when other potential purchasers had been weakened. The group opted for a fast-track inte-

gration of Hafnia, a process which has absorbed most of its energies over the past two years. The physical aspects of the deal, such as relocation of staff and integration of management, were completed last year.

There has also been a thorough sifting of Hafnia's portfolio, and a deliberate attempt to price out some poorer quality business. Staff numbers have been cut by around 10 per cent.

Still to be fully and successfully integrated are the two group computer systems and differing cultures. The latter, a problem in many mergers, has been made more difficult because the smaller company is taking over the bigger one.

The former, however, is clearly the one which is giving Mr Zobel the most headaches. "The biggest problem we have had, and are still having, is to develop the right electronic data processing platform for the future," he says.

Codan's 1994 results suggest Hafnia has been a good buy. Excluding the impact of unrealised losses on its bond portfolio, the group made a profit of DKr349m, turning round a DKr217m loss in 1993.

Now attention has switched to whether Codan is going to make another audacious acquisition - this time by buying the non-life operations of Baltica which Den Danske Bank has put up for sale. Mr Zobel does not deny media speculation that Codan is interested in buying the Baltica

business, but equally he does not seem too hopeful about the company's prospects of success.

The group is in a mood to expand, and it is looking at other possible acquisitions in the Nordic region. It failed in an attempt to buy a Norwegian insurer a few years ago, but it has acquired a small Swedish insurer, Holmlia, through its purchase of Hafnia.

He stresses that the important thing is to be financially equipped for takeover opportunities as they occur, rather than to draw up a specific expansion strategy that could easily be derailed by events.

But he also makes it clear that the group's priority is defending its position in its home market. He says he is not unduly worried by the aggressive moves of Den Danske Bank, the country's biggest bank, into the insurance sector, noting that competition in the Danish insurance sector is not so much "increasing" as "changing". "We are a specialist in insurance," he says. "We are not afraid of competition from banks."

PROFILE: UNIDANMARK

Bank returns from the brink

Denmark's second-largest bank, Unidanmark, has come back from the brink.

In 1992, when it made a net loss of DKr4.6bn, easily a Danish record, the central bank considered it prudent to guarantee Unidanmark's liquidity requirements in case the bank was exposed to a run by customers, an arrangement which has since been discontinued.

The bank, now smaller and leaner, is profitable again and in 1994 it raised DKr1.7bn through an international share issue, which enabled it to go back on to the offensive.

Meanwhile, it has slimmed dramatically. Its balance sheet total and its lending have fallen by about a fifth since pre-crisis days, and staffing and the branch network have suffered a similar squeeze. Expenses were cut by DKr750m to DKr5.74bn between mid-1992 and 1994.

The results are visible in the ratio of expenses and depreciation to operating income, which has fallen from 74 in 1992 to 65 in 1994. Mr Thorleif Krarup, chief executive, says the bank aims to bring down the ratio over the next three years by another five points - "and if we cannot do this by improving revenue, we have the will to do it by cutting costs".

For each point by which the ratio falls, the bottom line is improved by DKr200m. The bank reported net profits in both 1993 and 1994. The 1993 profit of DKr985m was attributable to the positive DKr2.56bn value adjustment (unrealised gains) of the securities portfolio. In 1994 the value adjustment was a negative DKr67m.

The DKr330m net profit last year, therefore, reflected a return to profit on core banking activities, thanks especially to a

cut in bad debt provisions to DKr1.8bn from DKr3.8bn. The board proposed a restoration of the dividend at 10 per cent after passing for two years. The 1994 profit represented a return on equity (at the start of the year) of 4.5 per cent.

Last year's equity-raising exercise has given the bank a strong capital base. The capital adequacy ratio at the end of 1994 was 13.7 per cent, and the core capital (tier 1) ratio was 9.7 per cent.

Under Mr Krarup, who was brought into the bank in the autumn of 1992, the bank has also implemented a conservative funding policy. Base funding, which is "maintainable" deposits and capital reserves, exceeded loans by DKr24bn at the end of last year.

Competition is too tough for the bank to count on so-called organic growth. "Our philosophy is to develop products which can increase business with existing customers and develop customer loyalty, rather than to seek new customers," Mr Krarup said.

The philosophy was put to practical effect through two initiatives last year, the expansion of mortgage banking and the establishment of a subsidiary to sell life assurance and pension policies.

The mortgage bank, Unikredit, was set up in the autumn of 1993. It built up assets of DKr10bn last year. In the fourth quarter of 1994 it claimed 15-18 per cent of all new mortgage loans. The aim is to obtain a market share of 30-35 per cent of new loans on residential property.

Unikredit has also begun to provide mortgages on corporate property, but it does not see itself obtaining a market share in excess of 10-15 per cent for this

business. Mortgage banking is low on costs and risk. "We are dealing with customers whom we already know. This will be good business for us," said Mr Krarup, who says the bank can make DKr70m for every DKr10bn in mortgage credit.

As one of the two big bank domestic banks, Unidanmark claims a one third share of corporate business, although its share of total domestic deposits and advances, at 23 and 26 per cent respectively, is smaller. Its securities and foreign exchange trading operation is one of the biggest in Scandinavia, and it is supported by banks or branches in London, New York, Hong Kong and Singapore.

In Scandinavia, the bank's position is strong. For example, it is the only bank outside Sweden to have been appointed a primary dealer in Swedish currency and money markets. It is also a primary dealer in Finnish government bonds.

The declared policy is to widen its corporate customer base to include large corporate and institutional customers in the other Nordic countries, an expansion which, it says, is underpinned by its strong position within the securities, foreign exchange dealing and payments transactions business in these countries.

The bank's forecast for 1995 is cautious. After a long period of very low demand for loans, it expects a recovery in 1995, triggered by the economic recovery, as well as a sustained increase in mortgage lending. But competition is squeezing margins on lending business, with net interest income therefore expected to decline somewhat, while expenses and loss provisions would be on a level with 1994.

Hilary Barnes

PROFILE: DEN DANSKE BANK

Financial supermarket emerges

Mr Knud Sørensen, chief executive of Den Danske Bank, is a hard man to please.

His bank came through the credit and property boom-and-bust of the 1980s relatively unscathed, due to cautious lending policies, and in far better shape than many competitors.

Its position in the Danish market is unrivalled, due to assets of DKr338bn and a 35 per cent market share. And results last year, excluding the impact of unrealised losses on the securities portfolio, improved for the fourth year running.

And yet here is Mr Sørensen saying: "We are still not earning an awfully satisfactory return." Rather than reflect on past achievements, he says more must be done to cut costs and boost lending.

Mr Sørensen's main grumble is the weak state of loan demand. The strong recovery in the Danish economy has not fed through to higher borrowing levels. On the contrary, the bank's lending fell last year by nearly 5 per cent, in line with the decline in the overall market.

"Our immediate challenge is how to achieve reasonable growth in domestic lending," says Mr Sørensen.

The problems afflict both the corporate and household sectors. Yet, given Danske's 40 to 50 per cent share of the Danish corporate market, it has felt the impact of subdued company borrowing particularly strongly.

"Danish industry has consolidated over the last two to three years. Industries are cash-rich and well-capitalised. They still have some reserve capacity so they are not looking at investments. And they are interested in takeovers more than organic growth," says Mr Sørensen.

Confidence in the household sector has

taken a long time to recover from the austerity days of the mid- to late-1980s, and lending has been slow to revive despite low interest rates and growth in private consumption. Only in the past six months has there been any real sign of a pick-up, due mainly to increased car financing.

Even though Danish economic growth looks set to remain healthy for the next two to three years, Mr Sørensen expects only a modest revival at best in loan demand. He thinks that competition will be tough because of the efforts of niche domestic banks, mortgage credit institutions and foreign banks to win business.

In response, the bank will intensify its drive to cut costs. Although Danske has reduced staff numbers by 25 per cent from 16,400 to 12,000 since it was formed from a three-way merger five years ago, Mr Sørensen says there is further to go.

Weak lending growth also means that Danske has been expanding its business into other areas, particularly life insurance, pensions and mortgage credit.

Mr Sørensen famously told a conference in Copenhagen early last year that the bank saw no reason why it should not eventually obtain an insurance and mortgage credit market share equal to its share of the banking market. At the time, these might have seemed ambitious goals. But that was before the bank gained a controlling stake in Baltica, Denmark's largest insurance group, last autumn.

Buying Baltica has given Danske control of Baltica's life insurance company, Danica, which has a 23 per cent market share. Together with the bank's Danske Life, it should have 30 per cent of this market.

But this is not the clever strategic positioning that it might seem. Danske's engagement in Baltica has hardly been an enthusiastic one, beginning in 1993 more as a bail-out for a stricken group to which it had been a significant creditor, than as a deliberate investment.

Even its desire to hang on to Baltica's life insurance business is partly due to force of circumstance. This is because in 1990, when Baltica acquired its life insurance arm, Danica was prevented from paying a dividend for 25 years, reducing its attractions to other buyers.

Danske has indicated it will sell the bulk of Baltica's non-life insurance business.

The bank has moved quickly to build up its presence in mortgage lending. It established its own mortgage lending company only in 1993. Despite this, it captured 7 per cent of gross new lending in January 1994, rising to 13 per cent in December and 15 per cent in January this year.

The involvement emphasises the point that Den Danske Bank is unashamedly turning itself into a financial supermarket. The aim is to compensate for weak lending and tough competition in its core businesses by pushing aggressively into new, but low risk, areas.

The drive is being complemented by geographic expansion. Danske will establish a full branch office in Stockholm this year, with representative offices in Helsinki and Oslo, to attract more corporate business. "We like to consider ourselves a north European bank," says Mr Sørensen.

The moves are in part retaliation for incursions by Scandinavian banks into the Danish market.

Christopher Brown-Humes

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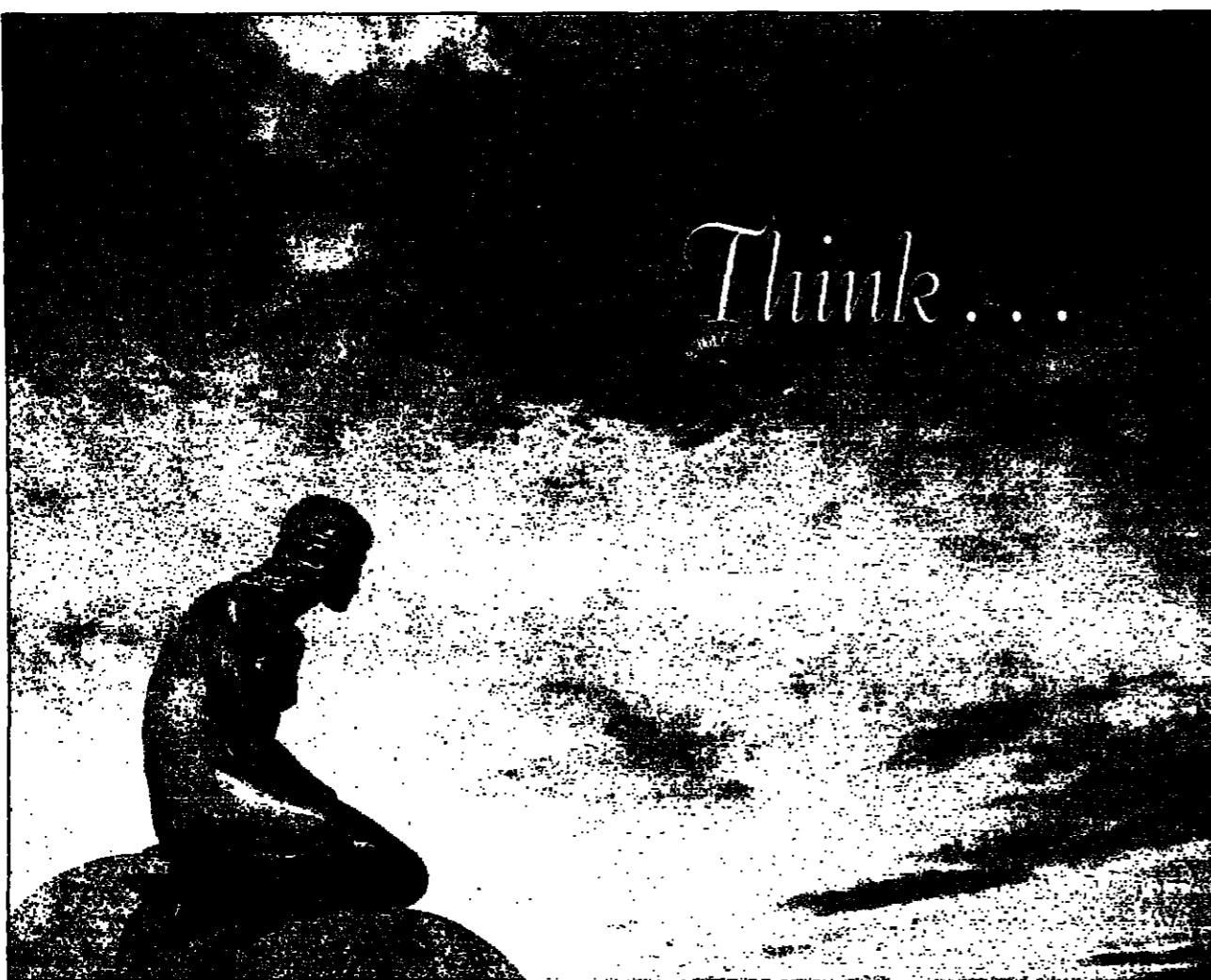
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DANISH BANKING AND FINANCE VII

THE INSURANCE SECTOR

Common problems

Denmark's insurance sector has still not found calm waters, nearly three years after the calamitous losses that overwhelmed the country's then leading insurers, Hafnia and Baltica.

The problems at both groups were so severe, following the over-ambitious investment forays of their holding companies, that rescues by stronger owners had to be engineered with some urgency. Hafnia was taken over by fellow Danish insurer Codan in 1993 and, after considerable restructuring, is virtually completely integrated into its new owner. Baltica has ended up under the somewhat reluctant controlling ownership of Den Danske Bank, but its ultimate fate has still not been resolved pending a sale of its non-life operations.

A third insurer, Topdanmark, has also had its difficulties, only recently resolved by a retrenchment to core business and a substantial debt-financing programme.

At a time when the whole Scandinavian financial sector has been ravaged by huge losses, the problems of the Danish insurers are far from unique. The roots of the crisis date from the early to mid 1980s when rising Danish bond prices brought unexpected riches, enabling the country's insurers to launch a fight for market share and move into new business areas.

One trend was for companies to try and set themselves up as financial supermarkets, offering both banking and insurance services. A typical move was Topdanmark's purchase of Aktivbanken, a Danish regional bank, in 1989.

Another trend was to expand through investments. Hafnia made a disastrous attempt to build up a pan-Scandinavian presence by buying 44 per cent of Baltica and 15 per cent of Skandia in Sweden. Neither company would co-operate with its plans and the value of both investments plunged, forcing Hafnia's holding company into bankruptcy.

Baltica made a series of property and other financial investments, but was also caught out by a subsequent drop in prices. Insurers often have substantial property portfolios - where

Baltica went wrong was both in the timing and the extent of its commitments.

Ironically, the underlying insurance businesses of most companies escaped serious damage during this phase, although there is no doubt that they suffered to a certain extent. This was partly because managements became so distracted with their loftier ambitions that they took their eye off their main operations; partly it was because intense competition kept premiums static for much of the late 1980s and early 1990s.

It is not too much of an oversimplification to say that those who spread their wings lived to regret it, while those who didn't have since been able to pick up the pieces and bolster their own market presence.

Codan is the classic example of this: it resolutely stuck to core business while its rivals were expanding recklessly, so building up the financial strength that eventually allowed it to absorb Hafnia, a company which has recently demutualised and is now aiming for a stock market listing, also stayed out of the expansion fray.

The biggest question, now, is who will buy Baltica. Den Danske Bank has said it wants to hang on to Baltica's life insurance unit, Danica, and many of the group's retail non-life operations. This is in line with its ambition to become a significant force on the Danish insurance market to match its banking strength. However, it is planning to sell Baltica's industrial and commercial insurance lines, businesses with annual premiums of between DKr2.5bn and DKr3bn. Analysts say the sale could fetch up to DKr4bn, depending on exactly how much of Baltica Danske decides to sell, giving the purchaser about 15 per cent of the Danish non-life market.

Danske is tight-lipped about the sales process, saying only that it hopes to complete the disposal before the end of the third quarter. Media speculation, however, is rampant. The favoured candidates are Skan-

dia of Sweden and Tryg, although Codan is also believed to be in the running.

Skandia is certainly a natural purchaser. It has a stated ambition of bolstering its Danish market presence to between 15 per cent and 20 per cent, and it held merger discussions with both Hafnia and Baltica earlier this decade. The Swedish group currently has only 5 per cent of the Danish market through its ownership of Kgl Brand.

Analysts believe Skandia could afford to pay more than its rivals, partly because of the economies of scale it could achieve by merging the operation with Kgl Brand and partly because it is more likely to keep the Baltica brand name than either Tryg or Codan. "This could be Skandia's last chance to get the substantial Danish market presence it has been seeking," says one observer.

Even when the Baltica disposal has been finalised, it is not necessarily the end of the restructuring within Danish insurance. Tryg has long been keen to build on its 19 per cent stake in Topdanmark, and it may mount a full takeover.

In the meantime, the pain of the past few years has forced a fundamental reappraisal of strategy. In virtually all cases, companies have retrenched to core business, abandoning more risky reinsurance ventures and retreating from overseas ventures and alliances.

There has also been a belated and concerted attempt to boost premiums after a prolonged period of price-discounting. "Competition has eased in Denmark over the last two years, after steadily rising over the previous eight to 10 years," says Mr Martin Gøttlob, insurance analyst with Svenska Handelsbanken in Copenhagen.

The heaviest losses have, been incurred in the motor and workers' compensation lines. Last year, premiums for workers' compensation were doubled and motor premiums went up by 5 to 10 per cent. Further increases in motor premiums are expected this year.

Christopher Brown-Humes



The Folketing may ban insurance sales by telephone. Picture: Tony Anderson

PROFILE: TRYG

The big issue is coming

Tryg, the general insurance group, will be responsible for one of the biggest new share issues in Copenhagen this year, writes Hilary Barnes. It will probably be made in the autumn, and it will raise around DKr1bn, giving Tryg a stock exchange listing for the first time.

Tryg (it means "security" and is not to be confused with Sweden's Trygg-Hansa) is a well-founded company with net equity capital of DKr4.48bn (end-1993), which is some DKr3.0bn more than it needs to meet the legal minimum capital adequacy ratio.

Its general insurance premium income is about DKr2.5bn and its life insurance premiums are about DKr4.1bn. "We are a company which has never performed badly and we are quite rich," said Mr Alf Duch-Pedersen, group chief executive.

Tryg was converted from its status as a mutual company in 1991, with Tryg General Insurance becoming the parent company and Tryg Life Assurance its most important subsidiary. The share capital is owned by the customers of the mutual companies through two co-operative companies, one for the accident and one for the life assurance customers.

The de-mutualisation was undertaken at a time when Tryg, Unidanmark, the commercial bank, and Nykredit, the mortgage bank, were plan-

ning to merge under a joint holding company. The holding company was set up by Tryg and Nykredit, but the plan was thwarted by a combination of unfavourable economic developments and legal obstacles to Unidanmark joining the group. Nykredit and Tryg therefore went their own ways and unravelled the financial links.

"The idea was good, but we were too early with it," concludes Mr Duch-Pedersen. The planned share issue is intended to broaden Tryg's shareholder base and to place a market value on the company. "We are preparing to take charge of our own destiny," says Mr Duch-Pedersen.

The group faces fierce competition because of the liberalisation of the financial markets, especially from the big banks, which use their branch network as an outlet for the sale of insurance policies. To survive in this competitive climate, he says, requires "a certain scale" partly to maintain an efficient nation-wide distribution network, and partly to generate funds for investment in technical facilities.

A first step to acquiring a bigger market share was taken last year, when Tryg bought Winterthur's Danish agency, which helped to boost the group's market share from just under eight per cent three years ago to almost 10 per cent

currently. Tryg also has an international co-operation agreement with Winterthur for serving Danish industrial groups with subsidiaries abroad. It is selling these companies a one-account concept, providing cover to the group and its subsidiaries with central claims settlement - and Tryg is so far the only Danish company to offer this service.

In the domestic front, Mr Duch-Pedersen notes that there are already two insurance groups each with nearly 20 per cent of the general insurance market, and in the longer term he thinks there may be room for only three or four large companies. This scenario can be resolved in two ways. Tryg can buy or Tryg can be bought, and if Tryg is to be bought it wants to be sure that it is at the market's evaluation.

Mr Duch-Pedersen refuses to answer the hottest question: does Tryg hope to take over the general insurance operations of Baltica, which have been put up for sale by Den Danske Bank. He says only that "we are following the situation very closely".

Tryg has flattered its eyelids at Topdanmark, another former mutual, which is close to Tryg in size, though Tryg is financially much stronger. While Tryg has stuck firmly to insurance, and does not intend to stray from it, Top is only just emerging from serious financial trouble as a result of a mis-timed investment in banking. Top, however, has so far declined Tryg's "invitation to a dialogue".

Mr Duch-Pedersen sees the domestic struggle for survival among the banks, insurance companies, and mortgage banks as almost entirely determined by the need for customer contact, a battle in which the banks, through their branch networks, have a unique advantage.

Insurance companies, however, have one privilege denied to the rest of the industry: they are exempt from the general Danish ban on telephone marketing (only newspapers enjoy the same exemption).

Door-to-door selling is also banned. The Folketing is currently considering a ban on telephone selling by insurance companies. The outcome of its deliberations will not be known until the autumn, but Mr Duch-Pedersen believes that if such a ban were introduced, it would put the smaller insurance companies out of business.

TELEPHONE BANKING

A call is all it needs

The future of banking, according to Mr Kim Brochdorff Nielsen, Bes not so much in flesh and blood as in information technology. He is set on a career that may give him ample opportunity to discover whether he is right. At 28, he is chief executive of one of the country's first telephone banks, Den Fri Bank.

Nevertheless, he is far from writing off traditional banking. His bank, for instance, is for private customers only, not for companies or other businesses - a niche bank, in other words. Mr Nielsen's tele-bank opened in November last year. It is a subsidiary of Forsikringsbank, a Copenhagen suburban bank, which provides infrastructure services and back-up for its home banking subsidiary.

"The response since opening has been much greater than we expected," says Mr Nielsen. However, he is shy about figures. He expects Den Fri Bank to become profitable after two years. The bank has 10 staff, including a data processing expert. It operates exclusively via the telephone from a modest office in an industrial suburb of Copenhagen. It does not intend to open branches.

Den Fri Bank is not the only telephone bank in the country. Den Danske Bank also has a telephone bank, Danske Direkt, but it does not offer software for use on a personal computer to its customers (it plans to begin doing so this autumn). Den Fri Bank has already gone this further step.

The "fri" (it means free) in the bank's name does not refer to the cost of its services, but to the freedom which it gives its customers to do their own banking. "All transactions can be undertaken by the customer, either via a personal phone or a PC," says Mr Nielsen. The bank's cost structure enables it (like many other niche banks) to offer competitive rates on both loans and deposits.

An important selling point is that there is a simple and transparent schedule of charges and interest rates. This contrasts with the situ-

ation which faces the customer in most banks, where the structure of costs and benefits is opaque and trying to compare charges and interest rates between one bank and another is almost impossible.

Mr Nielsen is not in any doubt that a large market is waiting to be exploited by telephone banks. A recent survey by Denmark's official statistical office showed that one in three households today has a personal computer, although only about 6 per cent have a modem (which links a computer to the telephone system). However, the share with modems is growing fast because a modem is now a standard part of the package when PCs are sold.

A marketing survey carried out for Den Fri Bank suggests that about 30 per cent of the customers in traditional banks are able to see the advantages of telephone banking, and 15 per cent of them are actively considering changing banks.

While Mr Nielsen and his staff, almost all of them in their 20s, represent a generation which is accustomed to computers, the bank's target customer group is in the 30-50 age group, who have enough money to make significant savings by switching banks. The Danish banking infrastructure favours the establishment of tele-banking subsidiaries. All the banks are connected to a single clearing system and all the banks accept the national charge card, the Dankort, which is also accepted for on-line transactions by virtually all retail outlets.

Similarly, the electronicfication of the financial markets - the Copenhagen Stock Exchange and the Securities Registration Centre are admirably suited to the needs of telephone banks and their customers. There is one drawback - telephone marketing is not permitted, which may slow down the growth of the customer base.

Hilary Barnes

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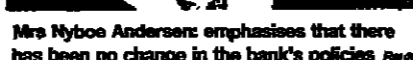
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The krone was not at the centre of the storms caused by the collapse of the Mexi-



As the new governor, Mrs Nyboe Andersen emphasises that there has been no change in the bank's policies. Continuity is the watchword. There is a touch of scorn in her voice when she notes the

"We (the bank) said at the end of last year that we were satisfied and nothing has happened since to make us change our minds," she says. The professional market analysts have also been speculating on the implications of the change of governor. Their favourite question is whether the central bank should announce an inflation target, as Nordic neighbours Sweden and Finland have done, or at least be more specific about its foreign exchange target.

The implied criticism makes no impression on Mrs Nyboe Andersen. "We do not need an inflation target," she says. "In

In practice, there was a small depreciation of the krone against the D-Mark by about 2 per cent from the second quarter of 1993 to the end of February this year, but the krone's rate against the ECU changed little - appreciating about 7.48 in the second quarter of 1993, before the ERM

Mrs Nyboe Andersen admits that it is ironic that Denmark is determined to meet the Maastricht Treaty's convergence criteria for participation in the third and final phase of the economic and monetary union (Emu), even though the country has obtained an option not to participate. "But the convergence criteria are regarded as

As someone who began her career as an academic, teaching economics at Copenhagen University, Mrs Nyboe Andersen should know.

Hilary Barnes

Copenhagen's charm lies in its narrow streets, canals, old pastel-coloured houses, and a virtual absence of high-rise blocks.

Generally, the atmosphere is

In winter, a good evening can be spent at the Danish

The atmosphere is more relaxed than in Sweden, Finland or Norway

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